

THE CASE AGAINST
EARLY REFORM



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**THE CASE AGAINST
TARIFF REFORM**

THE CASE AGAINST TARIFF REFORM

A REPLY TO
THE CASE AGAINST FREE TRADE
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To
D. E. T.

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PREFACE

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THIS book is intended to be, though not exhaustive, a general statement of the practical value of Free Trade and of the inability of Protection or Tariff Reform to deal successfully with the multitude of social problems which increasing industrialisation has brought to the world of to-day. The endeavour has been made throughout, without denying the importance of economic theory, to make it subservient to the facts of industry and trade. It is remarkable that at a time when Protectionist doctrines claim so many adherents the nostrums of the Protectionists are ignored by the army of scientific social investigators whose work is being carried on and is being applied with increasing success in every country.

HARDING

I should like to place on record my indebtedness to Mr. Barnard Ellinger, whose trenchant criticisms and suggestions have for some two years been a constant help ; to the numerous journals, especially the *Manchester Guardian*, *Westminster Gazette*, *Yorkshire Observer*, and *Investors'*

Review, which have given me frequent opportunities of publishing my work, of which this book may be taken as giving a partial summary ; to Mr. John Anderson for his kindness in reading the proofs ; and to my wife for her assistance in the preparation of graphs and of the index, and in many other ways.

The faults of the book are, needless to say, entirely my own.

E. E. T.

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THE CASE AGAINST TARIFF REFORM

CHAPTER I

IMPERIALISM AND LIBERTY

COSMOPOLITANISM

It is an almost universal plaint of the Protectionist and Tariff Reformer in every clime that Free Traders assume, in their economic reasoning, a cosmopolitan attitude; that they have no "national" economy based on German models; and that they have no regard for the future welfare of their country's industry. Present consumption and future production indeed are sometimes asserted to be the respective watchwords of the two parties. Widespread as it is, no greater fallacy could be conceived. It would be difficult to single out any English economist who merged the interests of his own nation in that of the world generally, or who had not in his mind, as a supreme thought, the material prosperity of England. When Adam Smith gave to his work the title "An Inquiry into the Wealth of Nations" he referred, not to the nations collectively, but to the nations individually. The substance of his classic permits no other construction. The basic theory of Free Trade, that the maximum of material

wealth accrues to each nation in so far as it devotes its energies to producing that which it is most fitted to produce and exchanges its produce for that which it is less fitted to produce, and that the gain to each nation arising from this international division of labour is determined by the reciprocal intensity of demand, is essentially founded on national distinctions. The existence of these distinctions is itself, in the Free Trader's mind, the only reason for a separate theory of international trade. That theory does not presume that under a system of free exchange the return to the labour of the whole world will be a maximum, and that this return is pooled, each nation taking its chance of receiving as its share much, little, or none; but, on the other hand, its conclusion is that the productive capacity of any one nation will, other things being equal, be at the maximum under a system of Free Trade or free imports. The fact that by this system the greatest good of the greatest number of the people of the whole world will be achieved is merely incidental to the theory, and not at all its foundation.

Were the indictment of cosmopolitanism true, the place of economics, and of economic experts, as a decisive factor in determining the expediency or in expediency of a British Imperial Union by tariffs at the present time might well be called in question. It is, however, a principal line of Free Trade criticism of the proposed reform that the purely national requirements of the different States of the Empire are as yet so divergent that the proposal for an Imperial Zollverein is at least premature. The self-governing colonies are only now realising their nationality, and are ambitious to foster each its own manufacturing industry, with the growth

of which, in competition with the greatest manufacturing nation of the world, any real customs union must inevitably conflict. On the other hand, just as colonial industries grow, Imperial sentiment as well as material bonds will lead in the direction of a genuine inter-Imperial Free Trade, as they are leading the farmers of Western Canada at the present time. That economic actions have political effects is undoubted: it is a totally different proposition that political action may proceed in defiance of economic facts. The offer of freedom of importation which came to Canada from the United States would, if accepted, have destroyed any system of Imperial Preference which might have been established, or, alternatively, the system of Preference would have destroyed the independence of Canada to regulate her own industries in accordance with her own ideas. Were Imperial Preference established, any lowering of duties say by Japan against the foodstuffs of Australia would constitute an inroad into the Imperial Union: and inasmuch as it is one of the objects of Australian Protection to obtain lower duties from foreign countries by means of Retaliation, the Imperial Union would stand in the way of one of the main purposes of Australian policy. The interrelation of economics and politics being given, the advocates of Tariff Reform do not make it clear whether the economic theory of Free Trade is irrefutable, and Great Britain must undergo an economic sacrifice in the political interests of the Empire, or whether the theory is wrong and Protection is essential to Great Britain, who must therefore undergo an economic sacrifice by letting colonial products be imported free of duty. If both agricultural and industrial protection be the object in view, the

inroads of British Possessions are only less formidable than those of foreign nations. In 1910 the value of Imperial foodstuffs and manufactured articles imported into the United Kingdom was not less than £80,000,000.¹ These compete with British industry in exactly the same way as foreign products, and, if the Protectionists be correct, cause unemployment among British workmen. The Free Trader, on the contrary, has no occasion to set political and economic considerations up against one another. Just as the choice of Canada is not between the United Kingdom and the United States—as the Tariff Reformer fondly imagines—because increasingly in the future she will require both, so this fiscal question is to be settled, not by the strife of politics versus economics, but by the co-operation of politics with economics. It is not to be supposed beyond the capabilities of British and colonial statesmanship to devise a method of Imperial Union without violating economic laws, or destroying the substance of independence.

One need not be thought too sanguine in believing that some such method is being devised, gradually and cautiously as it ought to be in view of the interests at stake, by the system of Imperial Conferences. To accuse Free Traders with lack of interest in or outlook into the future of the Empire, or, bluntly, with anti-Imperialism, is to gloss over the work of the Imperial Conference of 1911, and merely to accuse them of lack of interest in the pet scheme of the Tariff Reformer. Far from it being true that a Free Trade Government is content to sit with folded hands after banging, barring, and bolting the door against Imperial

¹ Exclusive of tea, tobacco, wines, spirits, etc.

Union,¹ the words of the Colonial Ministers prove conclusively that the last Conference was at least as successful and as pregnant with results as any preceding Conference, if indeed it was not more auspicious in its actual outcome than all the others. Sir Joseph Ward is of opinion² that "The Imperial Conference has done a great deal more than all previous Conferences put together." General Botha said³ "I can only say that my colleagues and myself from South Africa will leave this country quite satisfied with the work that has been done here," and Mr. Fisher⁴ expressed the opinion that "what has been done at this Conference will lay a foundation broader and safer than has ever hitherto been the case." The only persons who are dissatisfied with the results of the 1911 Conference are the Tariff Reformers, who must find it hard to be told by the Dominion Premiers themselves that more progress had been made when tariff preference was not discussed than on other occasions when it was almost the sole subject of discussion.

LIBERTY

The discussions of the Conference must have stamped indelibly on the minds of those who have studied them, that no scheme of Imperial action is possible which detracts in the least from the independence, fiscal or other, of any portion of the Empire. There is one political party which cannot conceive of an Empire except in terms of

¹ Mr. Churchill's actual words were: "They were told the Government had banged the door. Well, upon what had they banged the door? They had banged the door upon Imperial taxation of food. Yes, they banged it, barred it, and bolted it."

² National Liberal Club, June 20, 1911.

³ Conference, June 20, 1911.

⁴ *Ibid.*

a central unifying authority with power to enforce its will on each constituent part. To it an Empire composed of separate States, each having its own executive responsible solely to its own Parliament and its own Parliament responsible solely to its own electorate, fiscally autonomous, and correlated by no unifying forces but those of loyalty, language, tradition, and the necessities of defence, is not an Empire but a mere project of Empire. That party has no grasp of the real working value of unity in difference. It conceives that a group of States, practically independent in legislation and administration, with their own customs tariffs and their own commercial treaties with foreign nations, is about to burst asunder, perhaps to combine again into different groupings. It opines that an Empire in the hands of local statesmen is one "treated in haphazard fashion" and is "bandied about between short-sighted sentiment and private self-interest." On the contrary, our Colonial Ministers are neither haphazard in their government nor short-sighted in their actions: nobody better than they themselves is intimately conversant with the particular problems they have to face. They are bound together not only by loyalty, language, and tradition, but also by the general sameness of the problems of their governments and by common counsel. That the common counsel taken by each with all will grow more and more in the future, both parties hope; but that a unified system of commercial treaties and tariff action should be imposed on each State is as impossible as that any one Parliament can adopt the same line of action as every other so long as it is responsible to a different electorate. The British Empire is not yet ripe for a common fiscal policy, because the economic stage attained by each constituent State is widely divergent.

The policy of *Laissez-faire* is at the present time out of favour in the political thought of most countries, if not of all, and we are apt to forget the benefits which *Laissez-faire* in the days of its ascendancy conferred. Yet the glorious heritage of that policy or economic theory is the independence of our Colonies. From the year of Lord Durham's famous Report, in accordance with which a bold stroke of policy conciliated Canadian discontent by removing the fetters which were its cause, to the gift of full self-government to our former enemies, by which foes were transformed into friends and the Union of South Africa was made possible, the colonial policy which has been the admiration of Europe, and until recently the pride of every British citizen, was the gift of the great Free Traders of the past. It is for the Free Traders of the present to preserve it. Imperial duty is not a party question. The end of both parties is the same: it is the methods to be adopted that differ. The maintenance of Free Trade means, from the Imperial standpoint, the maintenance of fiscal autonomy for every State of the Empire. Tariff Reformers habitually treat every colony as being of one mind, and of one only: they neglect the existence of parties in the colonial legislatures. With the rise or fall of these parties, the fiscal policy of each colony will vary. At one time the majority of the Canadian electorate may be in favour of a fiscal rapprochement towards the United States or some other foreign nation. At another time it may be in favour of a more generous treatment of the mother-country. At yet another it may be the advocate of the universal protection of its home industries. At each variation the fortunes of Imperial Preference will rise or fall, unless they are permanently secured by some hard-and-fast system that does not permit

of local autonomy ; and to judge from recent events, as the policy of greater freedom of trade with foreign nations might prevail, those who support it and those who carry it into practice will be branded as anti-Imperialists and as disloyal. Retaliation is one of the main objects of the Protectionist party in every country. The aim of Retaliation is to bargain with foreign protected nations in order to obtain better terms of entry and to extend foreign markets. But just as any State of the Empire was successful in attaining this object, the value of the preference given to any other part of the Empire would be lessened. Retaliation and Imperial Preference are thus seen to be mutually contradictory ; in so far as one is effective, the other fails.

It will be urged that the aim of Tariff Reform is not to impose a uniform fiscal policy on all parts of the British Empire, and that the differences demanded by local exigencies will be respected. If that were so, it would be strange that appeal should be made by its advocates to the example of the Zollverein and the United States. The essential elements in both of these fiscal unions were that there should be Inter-State Free Trade and also that each constituent State should abandon once and for all its fiscal autonomy. They were essentially movements towards Free Trade : fiscal barriers were entirely swept away between a large number of what had previously been, fiscally, foreign nations.

There is nothing in the advocacy of Tariff Reformers to induce us to regard their proposals as tending in the direction of "Freer Trade." With even less success do they call on the "precedents" of Germany and the United States from the point of view of fiscal autonomy. Under neither scheme was an atom of fiscal autonomy preserved to the

constituent States. Free Traders believe that no more would be preserved to the States of the British Empire. Under Imperial Preference, the freedom of each colony to negotiate with foreign countries would be entirely lost, and with it one of the main objects of their protective systems. Under it, Canada would have been unable to accept the overtures of, or make overtures to, France or other countries with which she has recently negotiated commercial treaties without diminishing the value of her preferences to other parts of the Empire, and thus being stigmatised as the breaker-up of the newly-formed Imperial Zollverein. Even the fiscal autonomy of the United Kingdom would be lost. Under the system of Imperial Preference she would have been unable to make a special commercial treaty with Japan, by which she has recently gained exceptionally low terms of entry for her chief articles of commerce. Germany would have had no such incubus, and the spectacle would have been seen of Germany making terms with Japan; which Great Britain under the disability of the preferential system would have been unable to do. It may be said that terms could be made with such a country as Japan for the whole Empire, and not merely for the United Kingdom. That, however, in view of the colonial tariffs, could only result if each colony were willing to grant some reciprocal benefits to Japan in return—a thing which any colony might be unwilling to do. In either case the fiscal independence of some section of the Empire would be lost. The Dominions would again, and more rigorously, be subjected to that system of British commercial treaties from which they have just desired to be set free, and freedom from which has just been conceded by the Liberal Administration so far as

lies in its power. If Imperial Preference be effective, there must ensue loss of independence ; if independence is to remain unimpaired, the system of Imperial Preference must be broken through time and again. Under the present fiscal system, on the contrary, each part of the Empire is at liberty to make what commercial terms with foreign nations it can : that is a liberty which neither mother-country nor colonies are willing to forgo.

THE CANADIAN RECIPROCITY AGREEMENT

The discussion of the effect which an imperial scheme of tariff preference would have on the fiscal independence of each State of the Empire has centred recently round the proposed Reciprocity Agreement between Canada and the United States.¹ The point at issue has been not merely the ability of Great Britain to secure a plentiful food supply by controlling the markets open to the Colonies, but also the whole sphere of commercial treaties. The Tariff Reformer affects a great admiration for the National Policy of Protection in Canada, and the recent victory of the Canadian Conservative party in alliance with the Nationalists—who are not opposed to Reciprocity—has been claimed as presaging the continuance

¹ Criticism is here directed to the attitude, not of Canadians, but of British Tariff Reformers, to the Agreement. The distinction is all-important. The attempt to construe the recent Canadian Elections into a victory for Tariff Reform has proved abortive. Earl Grey, at the Royal Colonial Institute, October 24, 1911, said : " With the exception of an occasional crank here or there, it is impossible to find an annexationist throughout the whole length and breadth of the Dominion. I can also say with equal confidence that, notwithstanding some desire to the contrary, there is no expectation in Canada that the recent Canadian elections should be used as an argument for introducing any change into the tariff of the United Kingdom."

of this policy. Yet what had this policy done? In 1891, at a time when a vigorous agitation was carried on in Canada for Reciprocity with the United States, it was evident that the National Policy had failed to bring prosperity. Population was stationary, and thousands of emigrants were leaving Canada every year for the United States. The prices of farm produce were low. The exports of Canadian merchandise to Great Britain had shown little expansion. It was only the personal popularity of Sir John MacDonald, with whose name the National Policy was associated, and his announcement that the Government was already negotiating for a limited Reciprocity Treaty with America, that prevented a large measure of Free Trade between the United States and Canada being carried at that time.¹

Conditions since 1891 have altered enormously. At that time unrestricted Reciprocity with the United States involved discrimination against the products of Great Britain, but to-day the Canadian Reciprocity Agreement not only involves no discrimination against British products, but goes along with the Preference to Great Britain—a Preference which is now fully recognised by the United States. It is an undeniable fact that the supporters of the Reciprocity Agreement—the Western farmers—are also the main supporters of the British Preference, whereas the opponents of the Agreement—the manufacturers of Montreal and Toronto—were hostile to the grant of a Preference to Great Britain in 1897, and are still hostile to its extension. The victory of Mr. F. W. Borden is the defeat not only of Reciprocity with the United States, but also of the extension of the British Preference. It is a victory of “Canada for the Canadians.”

¹ *Economic Journal*, 1911.

Too great emphasis cannot be laid on the words of the memorial presented to the Canadian Parliament in December 1910, by the National Council of Agriculture :

"We desire that Free Trade be established between Britain and Canada in as short a time as possible without unduly disarranging business interests. We do not ask for any Preference in the British markets for our produce in return, since we regard Free Trade between Canada and Great Britain as being in the best interests of the development of Canada ; nor do we suggest that Britain should tax foreign foodstuffs for our benefit."¹

The powerful Grain Growers' Association of the Western Provinces has made the most important plank in its platform an immediate increase of the British Preference to 50 per cent., with complete Free Trade with the mother-country in ten years. If this is to be brought about, those who desire it should give their greatest support to the farmers of Canada. Yet what the Tariff Reformer has done is to oppose the farmers with all his might, and to support the manufacturers of Montreal and Toronto, who refuse to increase the British Preference by a cent.

Nobody will deny that in the last twenty years the tide of National and Imperial sentiment in Canada has been at its height. During those years imports into Canada from the United States have practically doubled in each decade. Yet, if, under the Agreement, it was said, Canada were enabled to export her products to the United States, that

¹ Cf. Sir W. Laurier, National Liberal Club, June 20, 1911 : "They gave a preference . . . it was there to stop. . . . They had not asked for compensation or a return. They had not asked the British people to change for their benefit what they thought to be the best policy for themselves."

would have been a step to political union. Surely if increasing imports were consistent with loyalty, increasing exports would not be the more disloyal. Who is it that has set up the cry of annexation in Canada? The manufacturing and financial circles of Montreal and Toronto! Yet it is well known that these people carry on their business with American capital, and sometimes lend capital to the United States; nevertheless, no fear of annexation troubles their consciences. But to sell fish or grain to the United States, is to be on the verge of political absorption!

The failure to obtain Reciprocity on former occasions—for Canada has many times asked for it—has resulted in the stirrings of disaffection.¹ It would be an ironical comment on the self-styled Imperial party if its rejection once again should result in the cry for annexation, and a deep severance between Eastern and Western Canada. Imperial Union cannot be founded on an attempt to limit the colonial markets: yet if Imperial Preference deprives any Colony of the right or power to negotiate for concessions with foreign countries—and it would undoubtedly do so—it will not only defeat one of the main objects for which the Colonies have adopted Protection, or for which the United Kingdom is asked to adopt Protection, but also will deprive the Colonies of their independence and thereby promote disaffection. That Imperial Preference is implicitly an attempt to limit colonial markets is revealed by the idea that the Reciprocity Agreement means dearer food for Great Britain. If the Canadian farmers can better prices in the United States

¹ The "National Policy" resulted in the formation of a strong party in favour of a complete customs union with the United States and division of customs receipts, which was only narrowly defeated in the General Election of 1891.

for their produce than they can in Great Britain, is it likely to promote their loyalty to the Empire that the manufacturers of Eastern Canada and a section of British politicians should attempt to prevent them doing so? The Canadian farmer is not going to accept a lower price for the Empire's sake any more than he is asking the British consumer to pay a higher price for the Empire's sake. Owing to the closing of the great lakes during four or five winter months, the Western farmer has to accept lower prices during that portion of the year, since he is not allowed to sell his grain to the ninety millions of people over the border. Throughout the rest of the year prices generally are higher in Canada than in the United States. If, owing to the Agreement, Canadian prices were brought down to the level of the American, it would appear that the price of wheat in Britain would actually fall. Canada has not to choose between the United States market and the English market: she requires both, in order to dispose of her increasing produce.

A reference to the Canadian anti-Reciprocity newspapers shows that the agreement was rejected on two grounds, that it was a bad bargain and that it played into the hands of the American Trusts. The anti-American sentiment was utilised to its full extent. *The Toronto News*, like other organs of the Conservative Party, reiterated again and again that the level of American prices was lower than that of Canadian, and that therefore Canada had nothing to gain from the bargain. The part which the Imperial idea played in the election came a bad third. On quite other grounds, however, was the Agreement opposed in Great Britain. Here it has been the opposition to the opening up of markets for Canada outside the Empire that

gained most emphasis. As Sir Wilfrid Laurier said, the Canadian Preference to Britain was never in any danger : it was the proposed British Preference to Canada that would have been made ridiculous by the Agreement, for then the spectacle would have been seen of Great Britain taxing American goods, not for her own but for Canada's benefit, while Canada herself admitted them free of duty. The British Tariff Reformer has not yet learnt what Huskisson learned by experience 85 years ago. "The prosperity of the Colonies is cramped and impeded by the old system of exclusion and monopoly, and whatever tends to increase the prosperity of the Colonies cannot fail in the long run to advance the general interests of the parent State."¹ The Tariff Reformer complains that the recent negotiations between Canada and France, Germany, and the United States, have meant a continual whittling down of the Preference to Great Britain. The injury done to us in this way has been grossly exaggerated, inasmuch as the proportion of our trade which has been affected by the negotiations has been very small. But let us consider what would happen if Tariff Reform were to be adopted by this country. Protection would be established in England, and a Preference would be given to Canada. Whenever the now-protected Great Britain made a tariff treaty with, say, the United States or Russia—and our Tariff Reformers tell us that they want a tariff for purposes of negotiation—this would mean a whittling down of the Canadian Preference. Thus, the very thing that the late Canadian Government was accused of doing is contained implicitly in the very policy of Tariff Reform. The cry of disloyalty that has been raised against the Reciprocity

¹ Huskisson, March 21, 1825.

Agreement might be turned against Great Britain herself were Imperial Preference established.

THE INDIAN DEMAND FOR PROTECTION

The dangers of the tariff policy in interfering with colonial independence and in leading to disruption within the Empire are equally well illustrated by considering the position of India. Mr. Wadia, a prominent Indian cotton manufacturer, wrote recently¹ that he would prefer India to remain fiscally as she is rather than be subjected to the policy of Imperial Preference. As this attitude represents generally the consistent Indian opinion which has found expression, it is worth attempting to discover—an attempt never yet made by any Tariff Reformer—what the basis of the attitude may be. The opinion is not that of the extreme Indian nationalists but of Indian politicians as a whole, including the members of the Viceregal Council and the Indian cotton manufacturers, round whom the discussion has so largely centred. The very adoption of Imperial Preference as regards British India means the abandonment for ever of the ambitions entertained by a large mass of our Indian subjects. Native Indian politicians, and especially the Indian cotton manufacturers, desire above all things Protection against Britain. Under Imperial Preference that desire could never be fulfilled. It may be said that it cannot any the more be fulfilled under Free Trade. Suppose then that some preferential arrangements are come to with India: with what shall we then be left? Simply the old difficulty of the Indian demand for Protection, with the position rendered more difficult and native

¹ *Times* August 7, 1911.

opinion the more exasperated by the preferential system standing in the way. India has no fiscal independence now; but the worst conceivable method of meeting the demand for it is to take steps by a preferential system to put any sort of fiscal autonomy out of the question for ever.

The Tariff Reformer assumes the Indian demand for Protection to be equal in every respect to a desire for preferential arrangements between Great Britain and India, which it most uncompromisingly is not. The Free Trade attitude to the problem is equally erroneously interpreted by him to be the outcome of British selfishness and Free Trade tyranny. The words of politicians like Mr. Bahadur and Mr. Justice Ranade, indeed of every Indian spokesman, are used to give moral support to the Tariff Reform propaganda, which is entirely contradictory thereto. The central fact of the Indian situation is not, as the Tariff Reformer assumes it to be, the granting of preference, or indeed full freedom of importation, to British products, but, on the contrary, the demand for protection against Great Britain herself. Indian politicians may desire protection against foreign nations as well, but, first and foremost, they are interested in keeping out British manufactured products, which in the vast majority of cases are the main, almost the only, competitors of the nascent industries of our dependency. No amount of logomachy can translate a demand for protection against the United Kingdom into a desire to give a preference to the United Kingdom. The two things are irreconcilable: and it is on this rock that the Tariff Reform policy breaks to pieces in theory, as it would most assuredly do in practice. A great parade is made of acting in conformity with legitimate Indian requirements;

but when the scheme came to the point of practical initiation who would be its most formidable opponents? Nobody but those Indian politicians themselves on whom reliance is now placed for argumentative support. Were a Conservative Government to impose Preference on India it would be hailed with the same epithet of selfish tyrant which is now flung at Free Traders. On that score, therefore, Conservative policy is equally to be blamed, or equally to be approved, with Liberal policy. When Mr. Surendranath Banerjee at the eighteenth session of the Indian National Congress said that if the Indians had a potential voice in the government of their own country they would unhesitatingly adopt a policy of Protection, did he mean protection against the small imports from Japan, or against the vast imports of Great Britain? Mr. Bepin Chandra Pal has declared: "The moment we have the right of self-taxation what shall we do? . . . We shall impose a heavy prohibitive protective tariff upon every inch of textile fabric from Manchester, upon every blade of knife that comes from Leeds." When Mr. Chitnavis spoke recently in the Imperial Council in favour of an immediate protective tariff he singled out for special comment the régime which secures to Lancashire and Bombay equal competitive opportunities.

Such is the language of Indian politicians and Chambers of Commerce. Any solution which neglects to take into consideration the demand for protection against England may be set aside as but an aggravation of the difficulty. That a grave difficulty exists is not denied; but that a Protectionist Government in Great Britain should continue to impose Free Trade between mother-country and dependency is inconceivable.

It would have to contend not only against the reasoning of native Indians, but also against the logic of facts. Of the total imports into India in 1909-10 the United Kingdom supplied 91 per cent. of the cotton yarn, 99 per cent. of the grey cotton piece-goods, 98 per cent. of the whites, 93·5 per cent. of the coloured, 86 per cent. of the sewing thread, 80·8 per cent. of the handkerchiefs and shawls, 75·7 per cent. of the woollen cloths, 87·7 per cent. of the woollen hosiery, 54 per cent. of the haberdashery and millinery, drapery and uniforms, boots and shoes, and gold and silver thread, 90 per cent. of the electrical instruments, 86 per cent. of the motor-cars and cycles, nearly 70 per cent. of the coal, 70 per cent. of the cigarettes, 93·6 of the textile machinery, the whole of the trade in sheets for tea-chests, 61·4 per cent. of the iron and steel, 65·6 per cent. of the hardware and cutlery, and so on, *ad nauseam*. In face of these facts the offer of Free Trade or Preference between India and the United Kingdom under the guise of protection to Indian industries would be rejected with contumely by every native spokesman. The great policy of Protection, which is to do so much for the Indian cotton industry, for example, resolves itself in the hands of the Tariff Reformer into letting £24,000,000 worth of British goods into India free of duty, while putting a stinging duty on £300,000 worth of Japanese hosiery. Even if such a policy could be enforced on India by means of a House of Commons majority—which is, indeed, Mr. Bonar Law's plan—it could not endure. The principle surrendered, the practice could not be withheld. Protection must speedily be exacted from the Indian Government, and acute and permanent severance effected between India and

British public opinion, and the problem abandoned as hopeless. It is a counsel of despair. Such is the ultimate solution along the lines of Tariff Reform. It ends in a calamity to both Indian and British interests. It would mean ruin and disaster in Lancashire, increased cost of living for the poorest of the Indians, and the destruction of the Indian export trade.¹ Is it not a sufficient ground for resistance to the Protectionist demand? It justifies the Liberal policy, but it is not a ground on which the demand could be resisted by a British Tariff Reform Government which had adopted Protection for England and praised its adoption by Japan.

In the scheme of Preference, sugar, coffee, tobacco, tea, bulk largely. It is not often realised that the shutting out in favour of the Empire product of the sugar of Java—which supplies the vast proportion of the Indian imports—of Java tea, of the coffee of Brazil, of the tobacco of Sumatra and Borneo, means a blow to companies holding their annual meetings in London. There are natural obstacles in the way of developing the growth of Indian sugar and tobacco which no preferential scheme could surmount.² It has been pointed out many times that as a business proposition there are no articles on which preference is worth having. The Empire tea-grower is at the height of prosperity and already en-

¹ "It would cause intense friction and exasperation between the industrial classes of Great Britain and India, and the extensive withdrawal from India of British capital and British skilled labour . . . for long years the cost of the clothing of the whole population of India would be enormously increased . . . the increased cost of production would utterly ruin the cotton export trade of India."—Sir Roger Lethbridge, *Financial Review of Reviews*, July 1911.

² "Review of Trade of India," Cd. 5384.

joys almost a monopoly of the British market. The jute grower would be hit by a differential export duty in favour of Dundee: his monopoly would not save him from the effect of throwing superabundant supplies on the Calcutta and British markets. "It is clear then," writes the Professor of Economics at the City College, Calcutta, "that India is not likely to gain much by a preference from the United Kingdom. The trade with the Colonies is very small, and no system of preference from them will be of any real use to her. Neither has the Empire anything to gain from the proposed system, as India has nothing to offer to the Empire."¹ Yet in face of this universal condemnation of the policy, the Tariff Reformer continues to urge it and will enforce it, if he gets the chance, by means of a House of Commons majority. But face to face with the Tariff Reformer there will still arise the demand in India for Protection against Great Britain more than against any other country. The Indian declares that every inch of fabric from Manchester must be excluded; the Tariff Reformer proposes to let every inch in free of duty.

THE FAILURE OF THE PREFERENCES

The Tariff Reformer has been accustomed to point to the protectionist convictions of the dominant parties in the Colonies, in India, and even in Ireland, as suggesting the disfavour visited upon Free Trade, and as affording moral support to his own scheme of Reform. "Give Ireland Home Rule," said Mr. Walter Long,²

¹ "A Study of Indian Economics," by Pramathanath Banerjea, 1911.

² Manchester, October 3, 1911.

"and give her the power, and she will be the most protectionist country in the world. She would protect herself not only against America, Germany, or France, but also against England." It is not observed that this is in itself an admission of the futility of Tariff Reform. The Indian demand for Protection, the similar Irish demand, if it exists, the Protectionism of the Colonies, and especially that of the Manufacturers' Associations of Canada and South Africa, is the strongest evidence that Tariff Reform, which means the importation of British goods into these countries free of duty or at reduced duties, is unacceptable to them. It is admitted¹ that the analogy between the Protection of the Colonies and of seventeenth- and eighteenth-century England is close, and that the latter looked only to the interests of the mother-country. The difficulty of Imperial Preference caused by this fact is visible in the preferences which have already been accorded. In so far as the preferences are genuine reductions of duty, the Free Trader welcomes them as a step in breaking down the barriers of trade between different parts of the Empire. But while the granting of a preference by the Colonies is hoped to be a movement towards Freer Trade, the granting of a preference by Great Britain would be a retrogression to Protection; and unless Great Britain is convinced that Protection is in her own interest, it would be an impolitic foundation for an Imperial structure. Unfortunately, the Australian Preference of 1907 cannot be regarded as a step in the direction of Freer Trade: the first object of the Australian tariff revision was to give increased protection to the home manufacturer, even against Great Britain. The average duty on dutiable imports from the United

¹ Cunningham: "Case against Free Trade."

Kingdom was raised from 22·15 to 29·85 per cent., while on those from foreign countries it was raised from 32·57 to 36·42 per cent. The actual preference was therefore decreased from 10·42 to 6·57 per cent. In addition, severe restrictions were imposed which have gone some way to make the preference nugatory. The expected result of the revision would therefore be to make British-Australian trade more restricted than ever before. Too short a period has elapsed to make it possible to say what the permanent effect of the revision will be; but in the two years following, as compared with the two years preceding 1907, the United Kingdom has lost a smaller proportion of trade under the non-preferential than under the preferential schedules. In regard to textiles and apparels, which form 47 per cent. of the imports subject to the preference, the United Kingdom share dropped from 77 per cent. in 1905 to 69 per cent. in 1909 in the preferential section. In 1905-6 Mr. Jeffray, who made a Report on Australian trade for the British Government, came to the conclusion that foreigners showed greater promptitude, attention to orders, and adaptability than the British, and that their goods were better packed and more attractive. Preference cannot take the place of these qualities—it may even induce their neglect by fostering a sense of false security. If Preference is to be used as a unifying principle, then let it be a generous measure of Free Trade, which, to argue on no higher plane, Great Britain has well deserved of her colonies by her provision of their largest market, their only free market, their defence, and cheap capital for their development. But as it is, the Protectionism of Australia has so brought it about that the mother-country is allowed inside the outer wall, but finds an inner

wall against her raised higher than ever before, and wanders round this blind alley under the impression that she is getting the Australian market.

It is no mere coincidence that both in Australia and in Canada the trade of the United Kingdom has prospered more under the non-preferential than under the preferential tariff. The average duty levied on British goods by Canada is considerably higher than on those of the United States. This does not of itself mean that the preference is of no value, but its significance is none the less great. It means that British goods come into competition more directly with Canadian manufactures than do American, and hence the general level of duties imposed on them is higher, even with the preference. The Australian method of giving a preference is to put one brick on to the wall against Great Britain and two bricks on to that against foreigners; the Canadian method is to take a brick out of the wall against Great Britain; and for that act of grace Free Traders are duly thankful. Yet the effect of the preference is far to seek.

Mr. Richard Grigg, in his recent Report on the Trade of Canada, divides the Canadian import trade from the United Kingdom and from the United States into classes according as they are competitive or non-competitive. It is in the competitive trade that the influence of the preference must be sought. In the class of dutiable imports—the only class affected by the preference—the British proportion has increased from 40·7 to 44·2 per cent. in the last five years, while the American proportion has increased from 41·4 to 45·0 per cent. As between the two countries there is, therefore, nothing to choose. As regards the free competitive trade—in which no preference exists—the British proportion has increased from

12·6 to 22·1 per cent., while the American proportion has decreased from 79·5 to 68·6 per cent. The former has gained almost as much as the latter has lost. Can it be then that the free play of competition has a more stimulating effect on British manufacturers than the protective shield of a preference?

The gain that could accrue to the United Kingdom from a preference in all parts of the Empire is strictly limited. As regards the cotton industry, which represents one quarter of our annual exports, the possible gain has been estimated¹ at not more than twice and probably about one-tenth of the normal annual increase of the exports under present conditions. The possibility of a reduction of duties in favour of manufactured goods is practically confined to the self-governing colonies; the Dependencies, outside of India, find in the customs tariff almost their only taxable source; the stereotyping of the free entry of British goods into India would most likely raise an agitation compared with which the present agitation against the cotton excise would be as nothing. The self-governing colonies are not themselves prepared to give a substantial reduction to the greatest "dumper" in the world, in competition with whom chiefly they are attempting to foster their own manufacturing industries. If Preference is to be a binding force of loyalty, it must be a great, generous measure approximating to Free Trade; but such the Colonies are not prepared to give to British manufactures, and Britain is not prepared to give to colonial raw materials. Without both of these things, Preference as an Imperial policy could be neither advantageous nor efficient. Meanwhile the Free Trader is content to allow the freedom of their institutions and the prosperity

¹ *Manchester Guardian*, March 31, 1911.

of their industries to guide the Colonies in the course of time to a policy of Imperial Free Trade, in which independence will be found in the pursuit of a common policy, and to continue to believe, as he has done in the past, that freedom is the nurse of loyalty.

IMPERIAL DUTY AND LAISSEZ-FAIRE

Unable to offer to India any substantial preferences in the British market wherewith to induce her to abandon her Protectionist ambitions, the Tariff Reformer seeks to make India barter her birthright for a very scanty mess of pottage, by promising a substantial preference in the markets of the Colonies as well. So far, it has only been suggested that this could be given on Indian gunny-bags—few of which are, as it is, sold to the Colonies by countries outside the Empire. That Calcutta and Dundee, under the same preference and in the same markets, would be in deadly competition with each other and would each in an age of protection be demanding tariffs against the other, is treated as of little importance. What authority is to compel the Colonies to grant any such preference as is promised? Some elements in the preferential policy demand the restriction of the markets in which the Colonies may dispose of their produce, and the attitude of some Tariff Reformers suggests that the exploitation of the Colonies is still their object, as it was of the Mercantilists. Not in regard to Canada alone is this the case. The jealousy caused by Canada obtaining more favourable terms from the United States than we ourselves do is exactly comparable with the qualms with which the increasing Australian trade with foreign countries, and especially with the East, is viewed. Cotton

growing is to be developed in our Possessions under the condition that Great Britain is to have first call on the produce. The Australian wheat consumer is to have the price of his wheat raised to him in his own country by a process which by taxing our foreign supply will give a better price to the Australian farmer; for the price of wheat in Australia is regulated by the export price, and particularly by the price it will fetch in the ports of Great Britain. The very essence of the tariff policy involves a diminution of the autonomy of every part of the Empire.

A primary problem, therefore, to be considered, even more than the merits or demerits of rival fiscal policies, is how, in any scheme of Imperial union, local independence may be adequately safeguarded. To say this is not to be convicted of a lack of the sense of Imperial duty. Opinion tending in an Imperialist direction, and opinion tending in the direction of complete legislative independence exist side by side in every State of the Empire, and to disregard this elementary fact is but to court a repetition of the Declaration of 1776. It was primarily through excessive interference on the part of the mother-country that the association of Liberalism with Protectionism became as instinctive as for fifty years it has been in Victoria. The opinion of the Canadian Manufacturers' Association, which is hostile to an extension of the British preference, and was hostile to its initiation,¹ is to be considered at least as much as that of the Western farmers, who desire complete Free Trade with the mother-

¹ In 1904 the Canadian duty on British woollen goods was raised to 30 per cent., and in 1906-7 further inroads were made on the preference. *The Economist*, Nov. 4, 1911, says: "At a recent meeting of the Canadian Manufacturers' Association vociferous cheers greeted a delegate who declared that any extension of the preference was not to be thought of."

country within ten years. The opinion of the Indian Protectionists cannot safely be neglected. The force which at the last tariff revision placed British goods entering Australia under absolutely more unfavourable terms while relatively to foreign goods giving relief, cannot be coerced into adopting a policy which claimed by its adherents to lead in the direction of Freer Trade. But attention to the essentials of local freedom is not to be confused with disinclination to study Imperial problems. It is, on the other hand, a necessity of any Imperial policy. In the discussions of the Imperial Conference the importance of preserving local independence was kept in the forefront at least as much by Sir Wilfrid Laurier, and other Dominion Premiers, as by any member of the British Administration. There is no thought of preventing the discussion of the fiscal question, and the experience of the Colonies is welcomed on all matters which concern the whole Empire. There are, nevertheless, periods in the history of nations and of empires, when *Laissez-faire* is the only constructive policy. That period exists now in the British Empire. To stereotype the bonds of loyalty by tariff organisation in order to secure united action, is but to render the machinery of Empire obsolete within a minimum of time, and to replace it by a tangle of outworn gear.

CHAPTER II

CRITICISMS OF FREE TRADE THEORY AND PRACTICE

ENGLAND'S MONOPOLY IN 1846

IT is a matter of dispute in the Tariff Reform ranks whether or not the industrial position of England in the middle of last century warranted the adoption of Free Trade. To this question some give an affirmative answer; others think that the policy of Sir Robert Peel and Cobden was valid only so long as there was hope that other nations would follow our example. The latter are refuted not only by the speeches of Peel and Cobden during the forties,¹ but also by the act of Cobden as late as 1860 in negotiating the Treaty with France, according to which Great Britain abolished all import duties on French goods (except wines, etc.), although France did not nearly abolish the French duties against English goods. Those, on the other hand, who think that Peel's action was justified, but that conditions have now completely altered, base their arguments on a totally different theory to that which finds the sole justification of Free Trade in its universal adoption.

Their theory in brief amounts to this, that

¹ *e.g.* Cobden, Aberdeen, January 1844. Peel, House of Commons, January 1846.

England was then in the position of a monopolist, and that Free Trade is expedient only for a country which possesses a monopoly. Each part of this argument admits of a separate refutation. The idea that England had anything in the nature of a monopoly during the years when we adopted the policy of free imports is entirely erroneous. It finds no support in the contemporary documents. In a speech in the House of Commons in 1825 Huskisson pointed out that American cotton goods were taking the place of British in the Mediterranean; and the Merchants' Petition of 1820 declared that many parts of Europe as well as America, where trade was unrestricted by the fetters imposed on it in this country, beat us in the market. The Petition of the Manchester Chamber of Commerce of 1839 expressly stated that foreign competition had already reached a high degree of intensity. The petitioners viewed with great alarm the rapid extension of foreign manufactures and deplored the consequent diminution in the trade with Europe. Exports had diminished, especially of manufactures, while those of raw materials had increased. "Several nations of the Continent not only produce sufficient manufactures for their own consumption, but they successfully compete with us in neutral foreign markets." Nearly four times as much cotton hosiery was exported from Saxony as from Great Britain, "the Saxons exporting annually to the United States alone a quantity equal to the exports from England to all parts of the world." Saxon manufacturers were underselling the English in the home market. "Establishments for the making of all kinds of machinery for spinning and weaving cotton, flax, and wool, have lately been formed in nearly all the large towns of Europe." These evils were "occasioned by our

impolitic and unjust legislation, which, by preventing the British manufacturer from exchanging the produce of her labour for the corn of other countries, enables our foreign rivals to purchase their food at one half the price at which it is sold in the market."

In 1857 Mr. Ellison, of Liverpool, wrote a "Handbook to the Cotton Trade," in which he reviewed the progress that had been made in the textile industry by different countries of Europe. His remarks on the state of the industry in the Netherlands, France, Italy, Germany, and Russia, dispose conclusively both of the assumption that Great Britain had a practical monopoly and of the belief that these countries did not enter into the industrial race until they had achieved the high protection of the last thirty years :

"The manufacturers of the (French) Empire," wrote Mr. Ellison, "have long been highly appreciated for their exquisite workmanship ; and in many branches of the trade for taste and skill in design they stand second to none." Again, in regard to Holland and Belgium, he wrote that "their home manufactures are mostly of the finer descriptions, and their fabrics have a world-wide reputation, being remarkable alike for their beautiful texture and durability." "The Italian provinces," he remarked, "exhibit a very healthy aspect ; the number of factories is on the increase, and the consumption of raw cotton in 1857 . . . was double that of 1850." The British Consul at Moscow wrote in 1857 that "this branch of manufacture . . . has been developing in Russia with great rapidity." Lastly, in regard to Germany Mr. Ellison wrote that "the trade and commerce of the State of Germany have of late exhibited a very healthy aspect ; and should they continue to progress in the same ratio as in

the last few years, Germany bids fair soon to approach even Great Britain, and its giant progenitor, the United States, in commercial importance. And if the geographical position, internal resources, population, and the industrial habits of the people be taken into account, we can see no reason why the Zollverein should not ere long stand by our side, and compete with us for the palm of commercial supremacy."

This was written long before the great elaboration of the German tariff which took place after 1879. How often since 1857 have Fair Traders and Tariff Reformers repeated the prophecies of Mr. Ellison? A close investigation of particular industries would also prove that in the first half of last century England had no monopoly: on the contrary, foreign competition was increasing rapidly, and there is doubt if modern competition is any more severe on its own plane than it was on the plane reached in those days. The history of the foreign firms engaged in the making of textile machinery shows not only that engineering on the Continent rose to a high pitch of excellence long before 1846, but also that the textile industry itself, for which the machinery was required, must have attained very considerable proportions. The rise of one of the largest and most reputed of textile engineering firms abroad took place as early as 1808, in the days of Napoleon the First. Its rise was indeed prompted by the very existence of Protection in England. "The first constructions of the time of Napoleon the First," says a History¹ of this firm, "caused the founder very great difficulties, for he was obliged to study and execute himself, even to the smallest details, the machinery which

¹ Historique de la maison N. Schlumberger et Cie, 1808-1911.

he required for his spinning. It was impossible at that time to import machinery from England, where the industry was also at its initiation; that country, seeking to monopolise the cotton industry at its birth, had rigorously prohibited the exportation of machinery." From 1808 to 1850 the firm had augmented many times not only its construction of machinery but also its spinning plant.

The Manchester Petition, which might be matched by many other contemporary documents, serves to recall to mind the real driving force which compelled England to adopt Free Trade. The town populations were growing apace and surpassing the power of England to feed them. Ricardo on April 29, 1822, said that there could be no security to the farmer while the price of corn was kept higher in this country than in foreign countries, and on April 28, 1825, Huskisson stated that in the ports of the Netherlands and France corn was sold at half the price at which it could be purchased in Great Britain. The purchasing power of wages being low, the cost of labour to the manufacturer—though not real wages—was high. Additional markets were essential beyond the limits of the home market, in order that the economies of production on a large scale might be reaped. The opening of the ports enabled British manufacturers at one and the same time to enlarge their output, to exchange their increased production with foreign countries, and to increase the purchasing power of the working-classes of Great Britain, thereby increasing the home demand. The condition of England has changed since 1846, but only so as to make the continuance of Free Trade the more essential: the proportion of the town populations has become enormously greater, the ability of

England to feed them has become enormously less, and a large foreign trade is more than ever necessary to provide employment, to enable economies of large production to be realised, and to maintain the purchasing power, and consequently the home demand of the masses. Yet Tariff Reformers are prepared even now to venture the sacrifice of the foreign to the home trade.

The conditions, therefore, which prevailed in 1846, and still prevail, have no relation to the theory that England had a monopoly of manufacture for the world. Wages in many trades had been declining since the beginning of the nineteenth century. Falling wages are not the accompaniment of a monopoly. Guizot's account of the state of Bolton¹ gives an almost contemporary picture of the straits to which one of our principal manufacturing towns had been brought. So far from England possessing a monopoly which might have given it the power to buy on its own terms, and therefore cheaply, our Protectionist policy was gradually decreasing our power of both selling and purchasing abroad, and the first to suffer were the growing town populations, which required for their sustenance a large foreign market. Had we indeed been in a monopolistic position Sir Robert Peel need not have attempted to negotiate in order to obtain tariff reductions from France, Spain, Portugal, and Brazil. But, having exhausted all the powers which a Protectionist tariff is presumed to have given him, and exhausted them to no purpose, he came to the conclusion that, even if foreign countries persisted in their refusal to negotiate, we should be only punishing

¹ Guizot, "Sir Robert Peel: Étude d'histoire contemporaine," 1856.

ourselves by not buying in the cheapest markets.¹ So long ago as March 1825 Huskisson had reserved the power of making an addition of one-fifth to the duties on the productions of those countries which refused to place our commerce and navigation upon the footing of the most-favoured nation.² In face of the growing competition of foreign countries and the diminishing competitive ability of Great Britain, our protective tariff was unable to secure for us—though attempts were made for at least a quarter of a century—the most-favoured-nation treatment, which is the automatic accompaniment of our modern fiscal policy.

FREE TRADE AND MONOPOLY

It is admitted by Tariff Reform theorists³ that there are countries which prosper commercially and industrially under Free Trade. No examples of such countries have, however, been forthcoming. The theory on which this statement is based is that Free Trade is beneficial to a country which has a practical monopoly of articles which are in general demand all over the world. Outside of India, which has a monopoly of jute (in regard to which a Free

¹ Speech of May 10, 1842: "I am bound to say that it is for the interest of this country to buy cheap, whether other countries buy cheap from us or no. We have a right to exhaust all means to induce them to do justice, but if they persevere in refusing the penalty is on us if we do not buy in the cheapest market. . . . If we find that, instead of reducing the duties on our manufactures, they resort to the impolicy of increasing them, still this ought not, in my opinion, to operate as a discouragement to us to act on the principles which we believe to be sound."

² Huskisson, March 25, 1825.

³ Cunningham: "The Case against Free Trade."

Trade policy is not recommended by the advocates of Tariff Reform), it is extremely doubtful if any country ever has had, or ever will have, such a monopoly. Certainly Great Britain had no monopoly of this sort in 1846. Ever since the Napoleonic Wars the industry of Europe had been developing with great rapidity. It is argued that a country which has such a monopoly can purchase what it requires on specially advantageous terms. Certainly the working-classes of Great Britain in 1846 had no such advantage. No country can at the present time expect to exercise such a monopoly; but what each country does and can possess is a differential advantage in its industrial ability. Even though it be relatively poor in natural resources, any country that has great industrial ability can afford to import its food-stuffs and raw materials from abroad. The great cotton industry of Lancashire is built up on the ability of masters and operatives, for every pound of its raw material has to be imported. Any country, therefore, which can produce a maximum value of output with the least expenditure of labour and capital per unit will be able to command its food supplies and raw materials on its own terms. If in the Tariff Reformer's theorem that any country which has a monopoly is enabled by Free Trade to increase its purchasing power we substitute for "monopoly" "great industrial ability" we shall get near to the truth. In order that for a maximum output the expenditure per unit of labour and capital be a minimum there are several conditions essential.

The most obvious is technical training. The second is, not that money wages be low, but that "efficiency wages" be low. If high wages are paid in return for a large output, the labour cost

to the employer is low. Thus it is that though the British spinner may earn 40s. to 50s. per week of fifty-five hours, the cost of his labour to the millowner is less than that of a Japanese spinner employed at 10*d.* per day. The third condition is that the purchasing power of wages be high. High prices in the United States to-day, as in Great Britain in the forties of last century, mean depressed trade.¹ The Tariff Reformer habitually makes light of increased prices: it is a strange doctrine which teaches that production can be increased by making things dearer. "To make things dearer" is in all things equivalent to "To make the return to an hour's labour less." A labourer can under normal conditions earn, say ten loaves of bread for ten hours' labour; if at some time, either from a natural scarcity or from the imposition of a tariff, or both, the value of the ten loaves appreciates, the labourer must either work longer in order to have the same purchasing power as before, or he must be content with a less purchasing power for the same length of labour. In either case the purchasing power of his wages is decreased: he cannot afford to purchase as much as before and therefore so much cannot be produced because it is no longer demanded. The home trade of a country must therefore be the first to suffer from a tariff. Just as a politician

¹ Cf. Hubbard Bros. (New York) Report, September 2, 1910: "The high price of food must have acted as the main cause for the inability of merchants and manufacturers to sell more freely." *Cotton* (Atlanta), October 1911, says: "The trade outlook for the coming year, at home and abroad, is not at all satisfactory. There are no indications of the high cost of living being reduced. . . . But by far the most unfavourable development was the failure of Canada to accept Reciprocity with this country, the realisation of which would have helped to lighten the burden of the masses by lowering the cost of the necessities of life."

may be of more value to his country by employing a secretary rather than by attempting to be both politician and secretary in his own person, so a nation may find more ultimate profit in importing semi-manufactures to be made into fully-manufactured goods, or in importing fully-manufactured goods of some descriptions and confining its energies to making similar goods of other descriptions rather than if it were to attempt to make both by itself. To this it may be answered that the politician may not be able fully to employ his time, for lack of work to do. But there is no limit, at least as yet, to the consuming capacity of the population of Great Britain. Though temporary overproduction is possible, the remedy for it lies in increasing the purchasing power of the nation's wages, not in diminishing it; and there is no evidence to show that unemployment, unless at exceptional periods of crisis, which affect every country, arises from this source.

THE VALUE OF FOREIGN TRADE

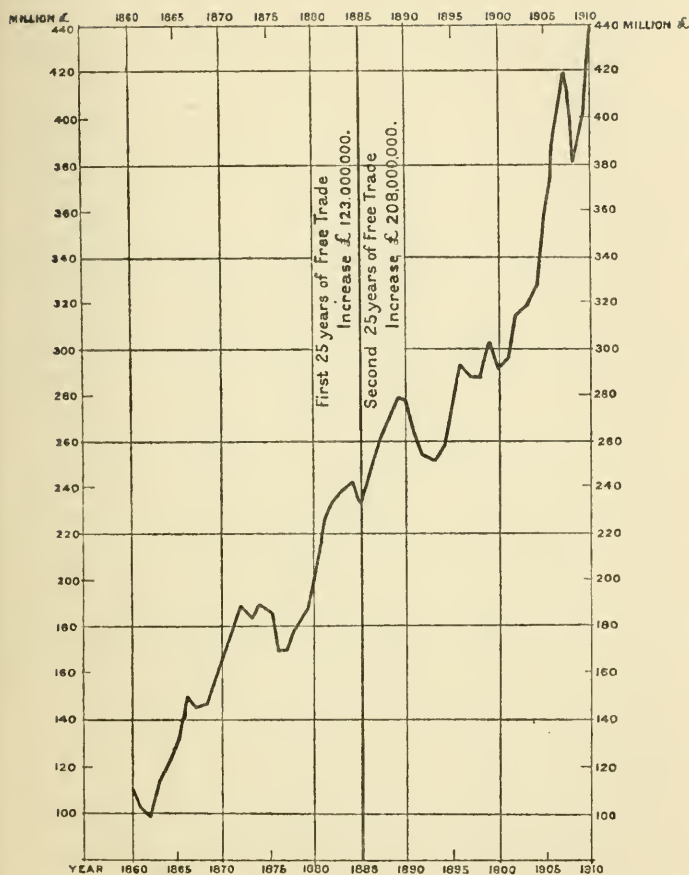
In the early years of the fiscal controversy our foreign trade was taken by all Tariff Reformers, and more especially by their leader, Mr. Chamberlain, to be the supreme test of British progress—or rather decay, as they thought it. Our foreign trade was, they assumed, actually decreasing, or not increasing as it ought to have increased. Lately, however, an exactly contradictory line of argument has been adopted. It is now declared that a great foreign trade is of itself no proof that the country is in a prosperous condition. Now that our export trade has increased by over 50 per cent. in volume since the beginning of the century, that is, now that it has grown more than half as great again within a decade, it

is obviously impossible that our foreign trade should be treated as a test of decadence. The accepted tests of industrial progress—the returns of the bank clearing-houses, railway receipts, the formation of new companies, the dividends paid by industrial enterprises, the figures of pauperism and unemployment—all show that the home as well as the foreign trade has progressed in marvellous fashion. But it is still true that the foreign trade is the best index of the expansion of trade as a whole. Great Britain depends, more than any of her great competitors, on a large foreign trade. By her exports, and by her exports alone, of goods and of services—both of which provide employment—can she obtain the raw materials, the semi-manufactures and the food-stuffs, without which Great Britain, as an industrial nation, would be relatively unimportant. Coal, clay, stone, sand, and salt we have in abundance. Our iron ore is limited. We have hardly any wood. Of cotton, jute, hemp, and rubber we have none. Of copper, tin, lead, zinc, gold, silver, and other metals we have little. The total acreage of the United Kingdom at the present rate of production per acre would not be sufficient to supply an appreciably greater proportion of the food we require than the cultivated area does at present, and even if it were all cultivated, it could only be at an enormous cost, with consequent restriction of our industry. Many raw materials, if they are to be profitably imported at all, must be imported in the form of semi-manufactures, and a large percentage of the so-called manufactured articles which the Tariff Reformer desires to tax belongs in reality to this class. By our foreign trade therefore we partake of the natural resources of other countries more richly dowered

than our own. Only by a great and increasing foreign trade can we get the materials of our industry now, and guarantee the supply of them for the future. Our exports do not pay only for what we receive now. Each year we export in goods and services more than we buy from abroad, the difference representing our foreign investments, by which we not only help to develop the resources of new countries, but guarantee to ourselves an increasing proportion of those resources in future times.

PROGRESS IN THE FIRST AND SECOND PERIODS OF THE FREE TRADE ERA

Probably the most prominent idea at the bottom of the Tariff Reform agitation is the misconception in regard to the expansion of British exports during the last two generations. It is admitted that Free Trade was beneficial for the first thirty years, but thereafter, it is argued, new conditions of competition arose to make it obsolete. The rapid progress of British trade up to 1870 is fully conceded. But commercial depression is said to be the mark of the period 1873 to 1886, and therefore it is doubted whether Free Trade was really a contributory cause of the previous prosperity. It is indeed suggested that the increase of trade in the fifties and sixties of last century was due in no small part to the gold discoveries and the consequent increase of prices, which stimulated industry. If it be argued that this stimulus existed it is equally true that the fall of prices from 1870 to 1896 would have a depressing effect. It is the more remarkable, therefore, that the expansion of trade was more rapid in the second than in the first period of Free Trade. The conclusion that



VALUE OF BRITISH EXPORTS 1860-1910 CALCULATED AT
PRICES PREVAILING IN 1900

trade was depressed is based¹ on a fallacious construction put upon the figures of British export trade. It is to be remembered that even had the apparent figures shown no increase whatever from 1872 (when, in any case, British trade was "booming" during the Franco-Prussian war) to 1900 (when the trade of foreign countries was likewise assisted by the South-African war), yet the general level of prices fell during these thirty years by at least 30 per cent., and the increase of our export trade would correctly have been shown by this figure. In the accompanying graph² the real increase during the whole Free Trade period is shown, apart from the distorting element of price, when calculated at the prices prevailing in the standard year 1900. It reveals the fact that during the first twenty-five years during which we had Free Trade, the real increase in our exports was £123,000,000, while in the second twenty-five years down to 1910 the increase was £208,000,000. The expansion in the second period was therefore all but double as rapid as in the first. Cyclical fluctuations exist as in the trade of every nation, but the general upward tendency, with its accelerated speed during the last twenty years, is strongly marked. Here then is no evidence that the growing competition of foreign countries during the last generation has been the cause of any decline, absolute or relative, in the export trade of Great Britain or in her power to purchase foreign supplies. The industrial ability of Great Britain, which is our greatest, and in the long run our only asset, has shown a progress such as the most daring flight of the Tariff Reformer's imagi-

¹ Mr. Joseph Chamberlain's speeches at Glasgow, Oct. 6, 1903; Newcastle, Oct. 20, 1903.

² Based on *Economist's* Index Number of Import and Export Values from 1880, and on Sauerbeck's Index of Prices up to 1880.

nation must hesitate to suppose to have been capable of acceleration by the application of his specific. The experience of the protected English manufacturers of the past, and the fact that higher cost of living and lower wages prevail in the present in the protected countries of Europe, go to show that our industrial ability can only be diminished by Protection.

PRESENT AND FUTURE PURCHASING POWER

Free Traders are charged by their opponents with concentrating attention on present consumption and neglecting to provide for future production, with believing that if imports increase, exports may be left to look after themselves. On this supposition are based multitudes of irrelevant appeals to national sacrifice and patriotism which, however, the vast mass of the community, being non-party, refuses to credit exclusively to the account of those who claim it most for themselves. In opposition to what is assumed to be the leading idea of the Free Trader, there has been erected what is called the "National System" of Protection, according to which present sacrifice is to result in future good. This system is borrowed from the German economist, Friedrich List, who, while unequivocally maintaining that Free Trade was essential to the prosperity of Great Britain,¹

¹ V. List, "National System of Political Economy," *passim*. Cf. Introduction: "A nation like England, whose manufacturing power has a long start of all other countries, best maintains and extends its industrial and commercial supremacy by the freest possible trade." Also in *Allgemeine Zeitung*, 1839: "Like a two-edged sword the Corn Laws inflicted a double wound on English trade; they set bounds to the growth of English manufactures and they called into life the protective systems of the United States, Germany, and Russia, which have nourished manufactures in these lands to become the serious competitors of England."

seemed to show by a somewhat automatic handling of the stages of national progress, that Protection was necessary to lift German industry to the level of British. It is unconvincing that present sacrifice should result in anything but present loss. If, however, for sacrifice we substitute energy, the theorem becomes true. The national welfare is in the hands of those who recognise that future prosperity will best be achieved by securing the greatest industrial ability now. The moral to be drawn from the undisputed maxim that exports pay for imports, is not only that imports may be left to look after themselves, but also that our exporting power, that is, our purchasing power from abroad, must be kept at the highest possible level. Such is a cardinal inference from the Free Trade doctrine, and it is applicable to Great Britain above all other countries.

Our purchasing power abroad, as at home, depends both on the purchasing power of earnings—implying high money wages and low cost of living—and on industrial efficiency narrowly defined. The increasing expansion of British exports proves that so far from any decline of our purchasing power having taken place, it has risen most rapidly in the latest periods. A consideration of the international obligations of this country leads precisely to the same conclusion. The excess of imports of goods into Great Britain has given rise to the idea that she is living on her capital, that she is not paying her way. The true state of matters is that she is more than paying her way, that she is yearly becoming a greater creditor to foreign States, and that indeed some foreign nations are mortgaging a portion of their future resources to Great Britain in order that they may get from her the means of developing them now.

Our Assets—what we pay with for the things we buy abroad, or again our purchasing capacity—consist of our export of goods, our shipping services, our banking, brokerage, insurance, and other services, and the interest on our foreign investments which stands to our credit. On the other side, our Liabilities, or what we have to pay for, consist of our imports of goods and of securities. Our national balance sheet for 1910 would be approximately as follows :

FOREIGN TRADE BALANCE SHEET, 1910

Assets

	£
Export of goods	430,000,000
Earnings of merchant navy	125,000,000
Earnings of other services	24,000,000
Interest on foreign investments	155,000,000
	<u>£734,000,000</u>

Liabilities

Net imports of goods	574,000,000
Purchase of foreign securities	160,000,000
	<u>£734,000,000</u>

The earnings of our merchant navy have not recently been estimated. In 1901 the net earnings of United Kingdom shipping were calculated by the Board of Trade and by Sir Robert Giffen, to be about £90,000,000. In view of the vast increase in the world's oversea trade in the last decade, the amount would naturally be expected to be considerably more. The estimate of £125,000,000 has been made on the same method as that of the Board of Trade, and caution has been observed against over-estimation.

The balance sheet set out above indicates that Britain's purchasing capacity abroad is valued at

£734,000,000. We could buy goods from abroad to that amount, but last year we bought only £574,000,000 worth of foreign and colonial merchandise. We did not receive payment for all the goods and services we sold. The countries which purchased them from us could not immediately pay us, and in order to cancel their obligations to us they mortgaged their future wealth by undertaking to pay us interest each year on £160,000,000 until the capital debt should be repaid. We accepted payment in the form of foreign securities to the value of about £160,000,000. The "driving" of British capital abroad resolves itself into this, that our productive capacity was so great that we sold a large quantity of goods and services the payment for which was deferred. That we invested last year £160,000,000 of new capital abroad is well within the mark in view of the published statistics of new capital issued. All of this new investment will of course not immediately bear interest; but at the current rate of the returns which we now receive from South America, the amount of new interest which we will receive from abroad will be about £8,000,000, imported in the form of food-stuffs and raw materials, which will in turn add to our productive capacity. Roughly it is calculated that the raw materials we import become three times as valuable when manufactured; so that the full gain to Britain from her new investments should be valued at about £20,000,000 a year.

Two final conclusions may be drawn from these considerations: (1) If at any time food-stuffs and raw materials so rise in price that it is difficult for manufacturing countries to obtain what they require, Britain has a margin of at least £160,000,000 a year with which to secure them. Instead of importing foreign securities, we could

import the necessary materials of our industry at the higher prices. £160,000,000 represents our margin of safety. (2) What would take place if the investment of British capital abroad were hindered or rendered impossible? How would the international balance be affected? On the side of our liabilities the amount would remain at £574,000,000; for we have at present all the food-stuffs and materials which we can profitably consume. If we could consume more, we have the wherewithal to buy. Therefore the asset side of the account would be reduced. Our interest on foreign investments cannot now be reduced, hence we should require to diminish our manufacture of goods for abroad or our shipping and other services to the extent of £160,000,000—a consummation which nobody, Tariff Reformer or Free Trader, could devoutly hope for.

THE CRITERION OF INDUSTRIAL PROGRESS

Probably no more comprehensive single test of the advance of the total trades of the United Kingdom and Germany is to be found than the weight of goods carried on the railways of the two nations. It is unlikely that any considerable portion of goods, even those carried on canals, escapes, at one part or another of its journey to the ultimate consumer, the embrace of the railroad. In spite, then, of Germany's undoubted progress since 1880, her railways still¹ carry a less weight of goods than do the railways of the United Kingdom, although her population is 40 per cent. greater.² Throughout the period from

¹ 1905-1908.

² And although German railways have the advantage of a large transit trade.

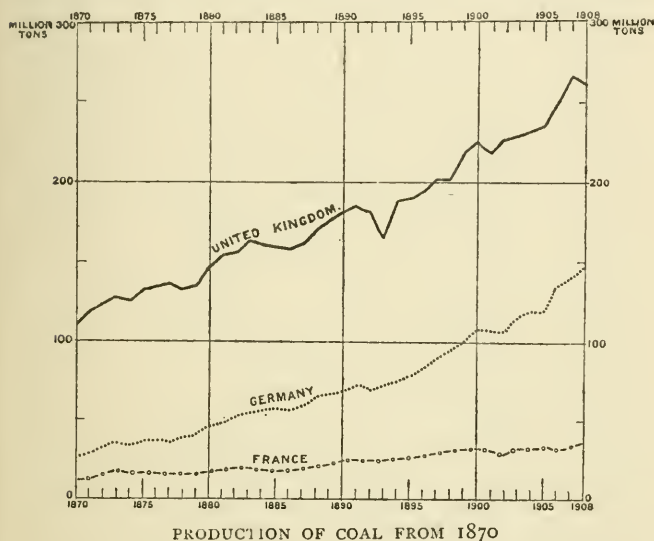
1880 the weight carried on British railways per head of her population has increased more rapidly than that on the railways of Germany. Similarly, the production of coal in the United Kingdom has since 1880 progressed if anything more rapidly than that of Germany,¹ and it has left the French production far behind. This will be seen by measuring the distance between the curves in the accompanying graph at the points of intersection of the vertical lines. It is however stated as a cause of relative decay that whereas Great Britain formerly held first place in the manufacture of steel and pig-iron, she now stands third, behind the United States and Germany. That the production of crude blocks of pig-iron or steel is even a partial criterion of industrial progress must be explicitly denied. By the authors of the assertion no account is taken of the factors either of population or of ore deposits. A report prepared last year for the International Geological Congress at Stockholm gives the following account of the ore deposits of the three countries which head the list :

	Tons of ore.	Estimated tons of iron.
United States . . .	9,855,000,000	5,154,000,000
Germany	3,607,700,000	1,270,000,000
United Kingdom	1,158,000,000	455,000,000

These figures refer to "actual deposits," that is deposits which are being worked for industrial purposes. As the cost of mining increases with the difficulty of getting the ore, it is apparent that in the production of pig-iron and steel Great Britain now takes the place warranted by the

¹ It is said that a greater proportion of British exports consists yearly of coal. This is true of Germany also. Between 1898 and 1909 the increase of Germany's total exports was 75 per cent., and of coal exports alone 96 per cent. (v. Statistical Abstract of Foreign Countries, 1911).

extent of her deposits ; and that she formerly held the foremost position is merely due to the fact that then no process had been invented of making the mass of German and American ore available for industrial use. Great Britain has now yearly to import greater and greater quantities of iron ore, and therefore all the more her manufacturing industries depend on efficiency, cheapness of pro-



duction, and unfettered trade. With her decreasing iron resources Great Britain is yearly turning out a greater value of manufactured produce. In iron and steel manufactures, and machinery, her exports have continued to lead the way. In comparison with her output, her imports, apart from iron and steel in the first stage of manufacture, are less than 5 per cent., and even of these a considerable portion is electrical fittings and

machinery in which foreign countries have specialised. As regards the imports of iron and steel in the first stage of manufacture, attention might well be paid before any purpose of taxing them is sanctioned, to the Petition presented to the German Reichstag in January 1909 by no less than fifty-five German companies which use these articles, in favour of the total abolition of the German import duties, on the ground that the cost of production was thereby raised, and the ability to compete with Great Britain was diminished.

It has been said again that the British cotton industry is losing its position of pre-eminence.¹ On what ground this assertion is made it is difficult to discover. It cannot be on the ground of any relative decadence of our cotton exports, for these have increased more rapidly than those of any other country. Indeed, in some recent decades our exports have increased more than those of all other countries combined. It cannot be on the ground of any relative falling off in the number of our spinning-spindles. There remains the consumption of raw cotton. It has been pointed out that the stocks of cotton in spinners' hands are always less in Great Britain than in others countries. It is not the custom of Lancashire spinners to hold large stocks, as it is on the Continent: the cotton is bought direct from the merchant as it is required. This method has its advantages, in that less capital is locked up in holding stocks, and during the recent scarcity has not caused any greater amount of short-time working than there occurred abroad.

It is said again that our consumption of cotton is increasing at a much slower rate than that of our competitors. The reply is that for every 1,000 working spindles we consume approximately

¹ Cunningham: "Case Against Free Trade."

one-third of the corresponding German consumption, one-half of the French, one-fourth of the Russian, one-fifth of the Japanese, one-third of the American, and so on. In other words, we spin finer counts than do foreign countries, and we are progressively spinning finer and finer counts. From the national point of view this is of the greatest significance. With 40 per cent. of the world's spindles, we use 17 per cent. of the world's cotton; the proportions for the rest of the world are 60 per cent. and 83 per cent. respectively. The cost of the raw material is less, the labour is more skilled, the wages of labour are higher, the value of the output is greater in Great Britain.

The net value of the trade, measured by the difference between the cost of the cotton consumed and the value of the output, has progressively grown greater and greater, especially in the last twenty-five years, and more especially in the last ten years, and the increased value has gone mainly to the labour employed. Since 1870 the rates of wages of cotton operatives have increased by only 2 per cent.,¹ but owing to the increased efficiency of operative and machinery the actual earnings have increased by over 40 per cent.² The real value of the expansion is to be measured therefore, not by the gross quantity produced, far less by the quantity of cotton consumed, but by the relative distribution of the product between the lower and the higher grades of manufacture. Since 1895, if not before, there has been a progressive movement towards the export of higher grade piece-goods. This movement is noticeable also in the woollen industry. Progress in the woollen industry is to be measured not merely, or indeed chiefly, by

¹ Board of Trade, Cd. 4954.

² Wood: "History of Wages in the Cotton Trade."

the amount or value exported, but by the rapid movement towards higher grade goods. There has been an entire change in the qualities produced; the broad loom has largely been substituted for the narrow, and woollen tissues and worsted coatings have displaced worsted stuffs, which are two and a half to three times less valuable. From 1900 to 1910 the excess value of British exports over imports has increased by no less than 126 per cent. Since the early eighties French exports have declined, till they are now little more than half of what they formerly were. In the entire export trade since 1900 our lead over France has increased by 50 per cent., and that over Germany has doubled, and the greater part of the expansion has been due to foreign, and not colonial purchases. Whether from the point of view of the consumption of raw sheep and lambs' wool, or of the exports of manufactures, the only conclusion that can be drawn is that France, Germany, and the United States, and not Great Britain, require Tariff Reform. Satisfactory though this progress be, more satisfactory still is the increasing attention paid to scientific processes and the higher grades of manufactures, with the result that our competitive ability has become more formidable than at any previous time. In regard to iron and steel, cotton, woollen, or any other manufactures, the ultimate criterion of a country's permanent industrial progress is the increasing ability to produce a greater value of produce from a less supply of raw material by means of more skilled labour and less manual labour; to make, in Prof. Marshall's words, effort dear relatively to commodities, commodities cheap relatively to effort. That test the industries of Great Britain fulfil.

CHAPTER III

PROTECTED AND UNPROTECTED SHIPPING

THE BUILDING AND CARRYING TRADE OF FRANCE

ONE of the most frequent tests applied to the industrial progress of this and of protected countries is the proportionate share of the oversea shipping falling to the flags of the respective nations. Various periods have been chosen¹ to show that the proportion of British shipping in ports of the United Kingdom and in European ports is decreasing. It is alleged that the German mercantile marine is increasing more rapidly than that of Great Britain, and that the British shipping industry, as a whole, is in a state of stagnation, especially in the ports of Hamburg and Antwerp and in Eastern waters. Three preliminary remarks have to be made in relation to these assertions. Firstly, we require to know, not what has happened in any particular ten years,² but what is the trend of our shipping during an entire generation, and particularly in the latest period. No argument for Tariff Reform can be deduced from the fact that German shipping has pro-

¹ Cunningham : "The Case against Free Trade."

² Cunningham chooses the periods 1890-1902 and 1890-1900.

gressed more rapidly than British in one period, if it be true that British shipping led in the succeeding period. Secondly, we require to know what progress has been made in all the ports of the world. It is of no consequence to fiscal argument that British shipping has relatively decreased in the ports of Hamburg and Antwerp if it has increased in the ports of the United States. Thirdly, it must be recognised that Germany has followed our example in adopting absolute Free Trade in shipbuilding. Any relative progress the shipping of this country has made in recent years, therefore, is an argument that Protection had previously prevented it from taking its legitimate share in the transportation of her foreign trade. If, then, we seek an example of the recent movements of the shipping of a great industrial country whose shipbuilding is still under a Protective régime we must go to France.

The history of French shipping and shipbuilding during the last generation shows by a specific and concise example the real operation of tariffs on the cost of production and on trade. It is a history of successive errors committed at the expense of the Exchequer without profit to the merchant navy.¹ The system of Protection to industry has restricted the development of international trade and reduced the amount of freight available. In addition, tribute is paid by the shipbuilder in the form of increased prices for his materials of construction to the protected manufacturer. For both reasons the demand for ships is reduced, and the industry cannot attain that size without which there cannot be economy or progress. The bounty legislation

¹ Arnauné : " Les Tarifs de Douane.

of 1881, 1893, 1902 and 1906 has been a continuous failure. "An examination of these laws," is M. Arnauné's verdict, "shows that there is nothing, the case of sugar excepted, where Protectionism has shown itself less capable of realising the effects which it intended."

By the law of 1866 materials entering into the construction of ships, inclusive of machinery, were admitted free of duty. It was thought that thus French builders would be enabled to compete with British. But the hope was disappointed. The regulations for the enforcement of the law were so stringent that any advantage freedom of importation might have given was lost. In 1881 this privilege was repealed, and in its place bounties were given, definitely¹ in compensation for the extra charges imposed on builders by the customs tariff. It was calculated, for example, that the import duty on iron being 7.50 francs per 100 kilos, the increase in the cost of building under this head alone was 48 francs per ton. Allowing for other items, the bounty was fixed at 60 francs, and additional sums were given for machinery and apparatus. Even in the minds of the Protectionists there was no hope, such as our Tariff Reformers hold out, that home competition would suffice to keep down prices. For foreign-built ships the bounty was reduced by half: thus the shipowner was induced to buy his vessels from home yards and had to pay to the builder a considerable part of the bounty in increased prices. Twelve years later the bounty on steamships was reduced and that on sailing vessels increased, on the ground that the former class of vessel had three times the efficiency of the latter, while its costs were not three times as great. A government circular of 1902 reported

¹ According to Art. 4 of the Law of 1881.

that the effect of this differential advantage to sailing vessels had been abnormally to increase their number. On the other hand, the number of steamships had not developed as it was hoped. According to the circular, a monopoly had been given to French builders, who maintained their prices at a much higher figure than foreign builders, and who occupied themselves almost exclusively with the construction of sailing ships, so that a shipowner who had lost a unit of his steamship fleet could not easily replace it. The effect on French shipping both then and afterwards is seen in the proportion of steam vessels to the total: in 1893 it was 74 per cent., in 1903 it fell to 56 per cent., and by 1909 it had not recovered to more than 66 per cent. Thus the efficiency of the French merchant navy was permanently impaired.

The maximum of tonnage on which bounties could be paid during the whole currency of the law was fixed at 600,000 tons, and the expense was limited to 50 million francs. The consequence was that shipping firms rushed to order and builders hurried to place ships on the stocks, in order to get as large a share of the bounty as possible. In 1903 an extra - Parliamentary Commission was appointed to investigate what was taking place. It reported that no account was being taken of the conditions of the market: but for the law, ran the Commission's Report, the lowering of freights which had taken place "would certainly have induced [builders] to space out orders and constructions over a much longer period of time. Less would have been constructed at the beginning of the law, and construction would have gone on without interruption to the end." Over-production and over-capitalisation have been frequent marks of

the system of bounties and protection in all protected countries, with the consequent result of severe fluctuations of employment. The value of the tariff is capitalised, as in the case of Prussian agricultural land, and farmers, manufacturers, and employés are left no better off than before, while the consumers, and themselves as consumers, are mulcted.

The same Report of 1903 gave details of the comparative cost of building in England and France. A cargo boat of 5,000 tons cost in France £72,000—£24,000 more than it could be bought for in England. Interest at 5 per cent. on this increased cost during 20 years, which is the normal life of a ship, amounted to £24,000. Increased cost of insurance at $3\frac{1}{2}$ per cent. for 20 years came to £16,800 more. Including the extra charges for interest and insurance, a boat which cost in England £48,000 cost in France £112,800. It was proposed to give compensation by means of bounties for the whole of the difference between French and English costs, inclusive of the tariff duties on materials of construction; and this was done in 1906.

The cost imposed on the French nation by this series of legislation in favour of one industry has been enormous. From 1881 to 1893 the bounties paid amounted to £4,908,000. Under the laws of 1893, 1902, and 1906, which ran concurrently, the cost amounted to £17,720,000 by December 31, 1909. The total, therefore, amounted to £22,628,000, or an annual average of about £800,000. What has been gained from this expensive sacrifice? Reference has already been made to the retardation of shipping development on modern lines by the favour shown to sailing vessels. In the last twenty years the share of French ships in the tonnage

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entered and cleared in French ports was as follows :

	1889 per cent.	1899 per cent.	1909 per cent.
Entered	36·2	20·6	17·8
Cleared	48·2	29·3	22·5
Both	41·2	24·2	19·8

Thus in both entrances and clearances French ships do less than half of what they did twenty years ago. Various reasons have been offered for this unsatisfactory state of affairs. It is said that French exports, consisting mainly of manufactured articles, are small in bulk in comparison to their value, and that the geographical position of French ports makes it possible for English and German ships, having filled their holds with heavy freight at their port of origin, to take on light cargo at French ports at reduced rates en route for their destination. This explanation, however, is not applicable to the import trade; in 1909 the weight of imports by sea amounted to over twenty-three million metric tons, yet only 18·3 per cent. of the total weight was imported in French bottoms. Foreign ships carried 82·7 per cent. of the weight imported, and carried out 56·5 per cent. of the weight exported. Were the proffered explanation correct, we should expect to find these figures reversed. Two possible explanations of the decline of French shipping remain. The first is that Protection hinders exchanges. The second is the increased cost of a French over an English vessel. Both are due to the protective régime. French Governments and Commissions have themselves recognised that the protective legislation threw the ship-owner into the hands of the builder, and so increased his capital costs to a point at which he

could not effectively compete. The incapacity which Adam Smith predicated of all Governments to direct industry is clearly revealed; and the course of French shipping corroborates the opinion that "State interference with trade has generally meant class legislation, and favour shown to one section of the community at the expense of others."¹

BRITISH SHIPPING AND SHIPBUILDING

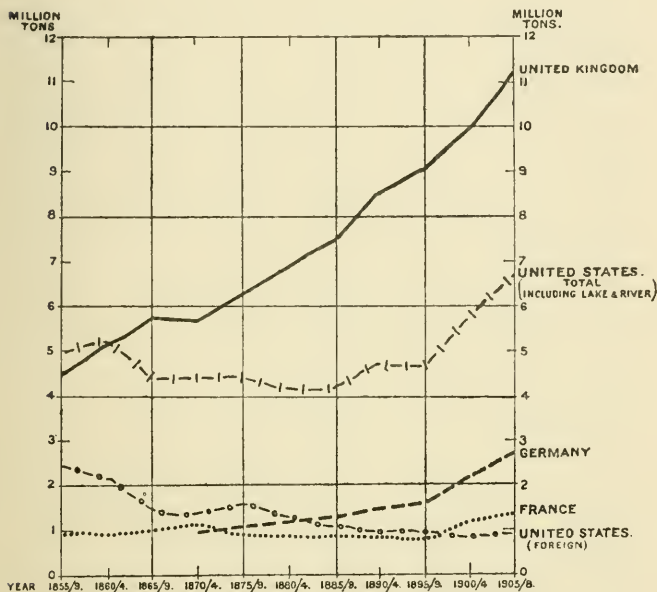
The misfortunes of French shipping therefore lend no support to Protective doctrines as providing a remedy for whatever evils British shipping may appear to be suffering. Such ills as exist are merely local and temporary; if the test to be applied is one applicable to every port in the world at every period of time, there is obviously no country in the world whose shipping will bear it; all alike, according to the "sort of evidence" adduced by the Tariff Reformer, stand in need of some immediate remedy, and all that the Tariff Reformer can do is to discredit Protection as a remedy for industrial ills. There is ample proof on the other hand that under Free Trade conditions British shipping has been the most prosperous, not only in previous but in present times also. The tonnage launched in the United Kingdom has in every single year since 1892² considerably surpassed that launched by France, Germany, and the United States and all other nations combined. The British preponderance naturally fluctuates, as in no other industry probably does prosperity depend so much on the general conditions of the world's trade. The vast

¹ W. A. S. Hewins: "English Trade and Finance."

² Cd. 4954.

majority of the new ships built by Great Britain are placed upon her own Register, but an increasing tonnage has been built for sale abroad, especially since the nineties onwards. At the same time as we have more than maintained our position as the shipbuilder for foreign nations, we have increased our own mercantile fleet by hundreds of thousands of tons, while France, Germany, and the United States have increased theirs by tens of thousands. In addition to selling new ships to foreigners, we sell abroad an increasing number of vessels already on our Register, and are thus enabled to replace with profit our old ships by more efficient ships of the most up-to-date construction. Ever since the late fifties of last century the tonnage of ships on the French Register has increased but little; from 1875 to the end of the century the amount of French shipping was absolutely stagnant, though a slight increase is noticeable in the last ten years. During the last twenty years the shipping of the United States in the foreign trade has failed to make any progress at all and shows an almost steady decline from the fifties, sixties, and seventies, so that now it is only one-third of what it formerly was. Had the conditions of French and American shipping prevailed in Free Trade Britain, we should have expected some fiscal reformer to point the moral against Free Trade, but that any support of Protection should be found in these facts is incredible to the meanest intelligence. In Great Britain, on the contrary, the tonnage on the Register has never ceased to expand, apart from temporary fluctuations, from 1855 to the present day, and the expansion, like the expansion of our total trade, has been double as fast in the last as in the first period of our free import policy. The first thirty years saw an

expansion of 2,400,000 tons; the second of no less than 4,300,000. The German tonnage has likewise increased, but only by 1,700,000 tons in comparison with a British increase of 5,500,000 tons since the seventies. In each succeeding



TONNAGE OF SHIPPING ON REGISTER OF UNITED KINGDOM,
FRANCE, GERMANY, AND UNITED STATES

quinquennial period the British tonnage has increased more than the German.

The facts of shipbuilding and of tonnage on the registers of the foremost trading nations lend their support, if they mean anything at all, to the benefit of Free Trade, and condemn Protection. Assuredly if British ships did not carry an in-

creasing proportion of the world's goods, they would cease to be built, and the records of Britain would then be similar to those of the United States. Happily it is possible to prove that this is far from being the case. Under the old Navigation Acts—those Cromwellian regulations whose participation in British progress has been grossly exaggerated,¹ whose spirit was the nurse of the wars of the seventeenth and eighteenth centuries, and which terminated in 1849—foreign shipping was gaining in the first half of the nineteenth century a greater and greater hold in British ports. In 1821 it is calculated² that 27 foreign ships entered and cleared in British ports for every 100 British ships; in 1844 the proportion had risen to 37, and in 1849 to 42. Under the Reciprocity Treaty of 1815 with the United States, on the other hand, a different tale is to be told. In 1821 7 British vessels entered the ports of the United States in the foreign trade for every 100 American vessels: in 1835 the number had increased to 39, and in 1849 to 56. In 1905–8 again 28½ million tons of British shipping entered and cleared in United States ports, as compared with 8 millions of American shipping, and 19 millions of all other shipping. Yet we are asked to believe that in 1846 British trade had a monopoly, which now has departed.

The coasting trade of Great Britain is almost entirely in British hands. The British proportion has never fallen below 99 per cent. The absolute increase of the British tonnage is enormously greater than of foreign tonnage, and in 1908 only 440,000 tons of foreign shipping took part in this

¹ "It is improbable that the Navigation Act inflicted that damage to Dutch commerce which is usually attributed to it."—W. A. S. Hewins: "English Trade and Finance."

² *The Economist*, June 21, 1911.

trade as compared with 62,600,000 tons of British shipping. No decline from this pre-eminence has been witnessed in recent years. The carrying trade between the mother-country and her Possessions is similarly a British monopoly, and whereas foreigners had in the fifties 15 per cent. of the trade, their share has regularly decreased till it is now but 8 per cent. In the carrying trade with foreign countries the British proportion has shown a decline since 1885-9, but the absolute increase is still greater than that of any other nation. The proportion of the French foreign carrying trade in French hands has decreased, and the absolute increase of the British tonnage in this trade is nearly three times that of the French tonnage. The share of American ships in their own foreign trade has fallen from 71 per cent. to 15 per cent., and the British share has risen from 20 per cent. to 51 per cent. Again, therefore, it is evident that had such lack of prosperity as is to be seen in the case of France and America occurred in Great Britain, a powerful argument would have presented itself against Free Trade; but as it has occurred under Protection, for some strange reason Protection is upheld. From the early eighties Germany has wisely permitted all ship-building materials to enter free of duty, and the same policy of Free Trade has lately been adopted in the United States. The effect on German shipping was unmistakable: before the eighties the proportion of German shipping in her foreign trade was declining, and the British proportion was increasing; after the adoption of free imports, the German proportion has increased, and the British has declined.

The grievance of the Tariff Reformer amounts to this, that in certain parts of the world taken separately British shipping is not progressing so

fast as that of some other nation. It is sufficient to reasonable minds that in most parts of the world British shipping is increasing with pre-eminent rapidity. In the trade with Canada and the United States we are more and more outstripping competitors. Our share with the Baltic and Northern countries has decreased, owing to the growth of national shipping. Practically the whole of the Indian trade is in British hands, as well as a large share of the Indian coasting trade, and the trades between India and China, Australia and the East Coast of Africa. The British share of the Indian trade has increased since 1890 at double the rate of that of all other countries. In the Japanese trade the share of Great Britain has declined since 1900 in comparison with that of Japan, but less than in comparison with all other nationalities. The British share in the Australasian trade has progressed more rapidly than that of all other countries; the same is true of the South African trade. In Central and South America Great Britain has a predominant share, and though Germany has recently made rapid progress her share is still insignificant. In the total shipping trade of foreign countries, the British increase of tonnage is greater than that of the national tonnage. In the trade of British Possessions British shipping is increasingly predominant. It is therefore impossible to show any general tendency of British shipping to decline: there has been a tendency for it to quit some waters for others. Thus in 1890 37 per cent. of British shipping was engaged entirely in the trade between foreign countries, and in 1908 45 per cent.

The Tariff Reformer diligently selects the portion of the world's shipping which we have abandoned, and neglects to say that we have

progressed elsewhere. On such arguments no attack upon Free Trade stands investigation. Rather the experience of France, the United States, and Germany, and the conversion of the two latter, are solid arguments against Tariff Reform.

CHAPTER IV

COMPETITION IN THE LAST GENERATION

THE VALUE OF GERMAN FOREIGN TRADE

THE Tariff Reformer points not only to the rapid increase of the German export trade but also to the "dumping" policy of the German Kartels, forgetful of the fact that, in so far as the latter is actually carried on, it detracts from the value of the foreign trade, and represents a national burden. "Dumping" is equally possible in regard to a Protected as to a Free Trade country; it has been practised, for example, by the German makers of "heavy" or half-finished goods, on Belgium, and by this practice the Belgian makers of finished goods have been enabled to compete most successfully with their German competitors, even in the protected German market. The practice of selling abroad at below the cost of manufacture has been of long standing in Germany. In 1902 the British Consul-General at Berlin reported¹ that "exports both in quantity and value show higher figures, which may be attributed to the fact that industrial undertakings, finding no home market for their output, forced the export trade to the utmost"; and added that "it must

¹ Foreign Office, Annual Series, No. 2959.

not be forgotten that the flatness of the whole market led to an export trade, which was in many cases unremunerative, to use no stronger expression." M. Sayous¹ states in regard to the operation of bounties on export that whereas formerly the premium was paid on mere proof that the goods had been exported, it is now required that the export shall result in a loss. His examination of the state of German industry in 1901 is filled with examples of the benefit gained from this policy by Germany's competitors, and the difficulties which it puts in the way of the German export of finished articles.

As the counterpart of this export policy is to recoup the loss on the export trade by putting up prices to the home consumer, it follows that it can be carried on only under the shelter of a high tariff, and that the resultant return to the national labour is exactly nil. Our Consuls' reports show that the policy has been continued. In 1910 "the export was flourishing, but its yield was often out of all proportion to the cost of manufacture, so that with a vast turnover throughout the year the general profits remained low. The profits of the year were reaped by the lower grades of manufacture, while for the finishing industries as a class the year was disappointingly unremunerative."² In their attempt to reduce the cost of manufacture the finishing industries have been compelled to employ female labour, with the result that since 1905 female labour has increased by one-third, after making allowance for the growth of population, and the wages of male labour have been prevented from rising. The Chamber of Commerce of Offenbach has recently reported that the increased

¹ "La Crise Allemande," p. 287.

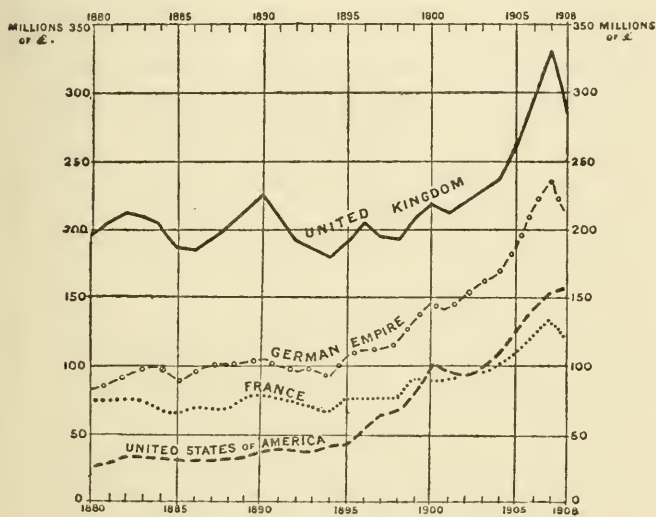
² Cd. 5465, 166.

German export "cannot be adduced as proof of the superior competitive power abroad of the German exporting industries," and the *Frankfurter Zeitung*¹ has roundly denounced the forced German export as a waste of national wealth. Even Protectionists in Germany have admitted the difficulties thus put in the way of the export of finished manufactures. Not only, then, can the increasing figures of German exports not be taken as an index of the increase of Germany's competitive power, but in addition a graver evil ensues. The protective system has resulted in giving an unhealthy stimulus to the low-grade industries, and has prohibited the application of labour and capital to the higher processes, which are most remunerative to both. If there is any one test of real industrial progress it is the increasing ability to produce a maximum value of output from a minimum value of material with a minimum expenditure of manual labour. The tendency of the protective system lies in the opposite direction. In Great Britain, on the other hand, the line of true industrial advance has been unimpeded—a greater value of textile manufactures is being produced from a less bulk of raw fibre; tin-plates are produced in place of crude steel. Even if the number of employés in either production were the same, it is more beneficial to employ the more skilled labour at higher wages, inasmuch as the industrial ability of the nation is thereby increased.

Furthermore, in reckoning the true expansion of German trade we require to make allowance for the higher level of prices which exists in Germany than in Great Britain. The same rate of increase means a less real increase if it be

¹ September 18, 1910.

calculated at a higher price-level. Not only is the price-level lower in Great Britain than in Germany, but in addition prices have advanced more rapidly in the latter country. We have seen that British exports, if calculated at the prices current in 1900, that is if the measure of quantity be taken, have increased from 240 to 416 millions sterling between 1896 and 1907.



EXPORTS OF MANUFACTURED GOODS

Within the same period the general level of prices in Germany has increased by, roughly, 30 per cent., and though this figure is not strictly applicable to German exports, it will give a sufficiently accurate result. The declared value of German exports has risen from 173 to 337 millions sterling; but, if allowance be made for the fluctuation of prices, the actual expansion is

seen to be from 173 to 259 millions. Thus within these years the real expansion was £126,000,000 in the United Kingdom, compared with £86,000,000 in Germany.

Subject to these qualifications, we may now examine the allegation that German exports have increased faster than British, and this can best be done by looking at the accompanying chart, which shows the course of the declared values of the exported manufactures of the United Kingdom, Germany, France, and the United States. The relative advance may be calculated by measuring the distance between the curves at the points where they are cut by the vertical lines. It will then be found that the course of German exports of manufactures made no permanent advance on the course of British until about 1895, and from 1900 to 1908 no further advance was made. It thus appears that the only period at which German exports made an advance on British was the years immediately preceding and immediately following 1895. At that time the full effect was being felt of the discovery of the Thomas-Gilgrist process of smelting, by which at one and the same time the immense resources of Germany in phosphorous ores and coal were set at liberty for productive purposes and an enormous stimulus was given to German industry.¹ When the stimulus had passed, Germany settled down to the rate of progress warranted by her natural resources and no further advance on Britain has been made.

¹ "To show how much Germany owes to the basic processes of steel making, it is only necessary to say that in 1908, out of 11,078,660 tons of steel made, no less than 10,480,349 tons were basic steel, and only 598,311 tons were acid steel. The quantity of acid steel has therefore practically not increased since 1879." —C. Hood, "Iron and Steel: Their Production and Manufacture."

Further, the prosperity of Germany in the nineties was coincident with a diminution of her Protection.¹ Similarly, by following the curve of French manufactured exports, we see that the rate of increase in France has fallen behind that of Britain during the whole period, and that since 1890 the distance between the two curves becomes greater and greater. Yet, according to the Tariff Reformer, it is just in the latest period that the competition of protected countries has become most severe. The case of France is habitually neglected by the fiscal reformer: the protective system is a principal cause of the relative stagnation both of French industry and of the French population. In the case of the United States no permanent advance on Great Britain was made till 1895, and from 1900 onwards that advance has been partially lost. Further, the general level of American prices has advanced so enormously since 1896—by 40 to 60 per cent.—that a large discount has to be made from the foreign trade figures on this score. It is then impossible to conclude from the figures of manufactured exports that Protection has aided the competitors of Great Britain.

It is the custom of Tariff Reformers to compare trade increases over the last generation; and finding that German and American total exports have increased over the whole period by a few millions more than those of Great Britain, they jump forthwith to the conclusion that it is Protection which has enabled this result to be brought about. A more unscientific proceeding could scarcely be imagined: it consists in glossing over the real factors which have

¹ Cf. Dr. Pachniche of the "Volkspartei" in Debates on high prices in Reichstag, Oct. 27, 1911.

influenced the trade of the three countries. These can only be found by a close examination of the periods at which the advances of Germany and America were made. The yearly increases or decreases in the trade of the three countries, omitting France, as British trade has completely outstripped that of her protected neighbour, shows that the relative falling off of British trade occurred at three very definite periods—1882-86, 1901-4, and 1908-09. At other times the exports of all three countries are subject to the more normal fluctuations of trade. The first and last of these three periods are associated with severe American depression, the second is associated with the South African war. The latter needs no explanation : just as the Franco-Prussian war proved a rich harvest for Great Britain, so the South African war proved only less rich for our industrial competitors. Clearly, the loss of ground by Great Britain during the war, and while its effects lasted, have nothing whatever to do with fiscal policy. The first and last periods have no more. American depression, commercial or financial, affects not only the United States, but to a large extent the whole of the Far Western and Far Eastern worlds. The countries of the East and West depend very largely for their industrial prosperity on the United States market; when that market fails them, their purchasing power is enormously reduced, and the immediate effect of this reduction is to deprive Great Britain of the opportunity of selling a large proportion of her produce for export. Not only so, but Great Britain has to wait until their purchasing power regains its former level before she can herself look for recovery. The same effect is not felt in Germany. Whereas only one-third of the

British export trade is with Europe, no less than 80 per cent. of the German foreign trade is with the nations that nearly surround her. The depression of British trade therefore in 1882-86 and 1908-09 has again nothing whatever to do with fiscal policy; and the relative advance of German trade in those years is due solely to the inherent characteristics of British and German markets.

Should a financial slump ever occur in European countries such as occurred in the United States recently, German trade would experience a depression far greater than that which would affect Great Britain. If, then, these abnormal periods are left out of account, as they should be from the point of view of fiscal policy, what of the increase in the trade of the three countries from 1880 to 1910? In the case of Germany the increase is £204,000,000; in the case of the United States, £272,000,000; and in the case of Great Britain, £268,000,000. Again, the higher price-levels in Germany and America, and the increase of those levels out of proportion to that of the British, must be borne in mind, especially as the enormous increase of £63,000,000 in American exports in 1910 was mostly due to the increased values of raw cotton and food-stuffs due to their scarcity; and without this price-increase the American and German increases would be nearly equal. It is then true to say that over the last thirty years British trade has increased in normal periods more rapidly than the trade of France, Germany, and the United States.

THE EXAGGERATION OF THE INTENSITY OF
INTERNATIONAL COMPETITION

The bald comparison of the aggregate figures of the foreign trade of different countries gives little information of value unless we know to what extent competition really prevails. It is of little use to compare the total figures of British and United States exports, inasmuch as 80 per cent. of the former consist of manufactured articles and 60 per cent. of the latter of food-stuffs and raw materials. Not only, however, does the matter of commerce greatly differ, but also the overlapping of markets is very much less than is generally thought. We have already seen that 80 per cent. of the German export trade is with European countries in comparison with only about 33 per cent. of the British. From 1901 to 1910 German exports increased by £106,000,000: of this increase no less than £74,700,000 was due to increased trade with Europe, leaving only £31,300,000 for the expansion of her trade with the rest of the world. British trade, on the other hand, including the re-export trade, increased by £129,870,000, between 1904 and 1910: of this increase £46,487,000 was with Europe, and £83,391,000 with the rest of the world. It follows, therefore, that the competition of Germany for increased foreign trade is, in regard to a very great percentage of our exports, totally illusory. Entirely different conditions affect the greater proportion of the commerce of the two nations.

It is not to be presumed that the trade with Europe has any peculiar advantages which do not adhere to trade with any of the other continents. The grade of goods imported by the Argentine or Brazil, for example, is in no way inferior to that

imported by France or Germany. Many of the South American Republics purchase from Great Britain machinery and engines of the highest type. Nor is it to be supposed that British trade is being driven out of Europe by the impregnable barrier of tariffs and commercial treaties which is supposed to exist there. The advantages which Great Britain enjoys are not less, or the disadvantages under which she labours are not greater, than those which affect the German Treaty States.

The intensity of international competition, which the Tariff Reformer exaggerates, is even *prima facie* much less than is supposed. If individual trades are examined with the requisite expert knowledge, it would be found that international competition is relatively small. The Anglo-German textile trade is a case in point. Platform Tariff Reformers eagerly pick out, as if for their salvation, years in which we import more from Germany than Germany imports from us: but what would be the value of the coincidence, even if it were true? The actual competition is restricted to only a small proportion of the total trade. In 1909 only 27 per cent. of the cotton trade; only 12 per cent. of the woollen trade; 50 per cent. of the silk; none of the ready-made; none of the flax; and only 18 per cent. of the hat trade between Great Britain and Germany was competitive. On the average, only about 20 per cent. of the Anglo-German textile trade consisted of articles in which the two nations competed one with the other. The rest consisted of German specialities and British specialities. If, again, we compare the total cotton exports of Great Britain and Germany respectively, we find that those of Germany are, generally speaking, neither to the same markets nor in the same classes of goods as those of Great

Britain. Germany's smallest market is our largest; her second largest market is our smallest. While yarn forms 12 per cent. of our trade, it forms a very small proportion of the German; plain piece-goods form 42 per cent. of our trade and only 7 per cent. of Germany's; thread, gloves, hosiery, lace, embroidery, etc., form 13 per cent. of our trade and 61 per cent. of that of Germany. Moreover, no less than 75 per cent. of the increase of Germany's trade from 1897 to 1908 was in this last class, which forms the least important subdivision of the cotton industry in Great Britain. Tariffs, cost of building and equipment, cost of labour, and other similar conditions have brought about this international subdivision of labour, which would be found to prevail in most other industries. The prevalence of home-work in the Saxon villages, to which there is nothing corresponding in England, gives Saxony unique advantages in the production of hosiery. Many of the so-called manufactures which we import—Swedish pig-iron for example—are the specialities of the countries of their origin. Where we import cloths, it is because the German skill in mercerising, dyeing, and printing in certain lines can get its own price. If the object of Protection is to enable us to capture any of the specialities of foreign nations, the answer is that German Protection has obviously failed to capture any of our specialities, and that to attempt to do so is merely to dissipate our labour and capital over a wide range of industries in which we are not able to specialise, and so reap the advantages of large and cheap production, and to threaten the prosperity of those enormous branches of trade which we have made our own. The facts of modern competition support the Free Trade doctrine that each country

should be left to specialise in those industries in which it is better fitted to engage. Anything else is simply bad economy. The only growth of new competition which has arisen in the last generation is in the large industries, cotton, woollen, iron, and steel, etc., as classes; the international division of labour on which Free Trade is founded is now to be sought in the different departments of each of these industries, and this new subdivision of labour, different in kind and not in extent, is in harmony with the increased specialisation which is the mark of the period and of the essence of prosperity.

RELiance ON COLONIAL MARKETS

The prophecy that we must rely more and more in the future on our own Possessions for the expansion of our trade and for the employment of our labour¹ has been proved false yearly since it was uttered. Between 1904 and 1910—the period when the countries of the destination of our exports have been recorded—the value of British produce consigned to Europe² has increased by £46,487,000, to extra-European foreign countries by £48,497,000, and to British Possessions by only £34,894,000. Whereas in 1904 a greater part of our exports went to our Possessions than to Europe, this has been yearly reversed. In all, the increase of our gross exports to all foreign countries has been £125,270,000 as compared with £38,080,000 to British Possessions. It is noticeable also that when the world-depression came in 1908 and 1909, our trade with Europe was affected to a very much less extent than our

¹ Mr. J. Chamberlain at Liverpool, Oct. 27, 1903.

² Exclusive throughout of Turkey.

trade with other regions ; had our European trade suffered to anything like the same extent, distress and unemployment would have been much severer than they actually were. From that calamity Europe saved us. During this period, 1904 to 1910, European tariffs have been increased, and the preferences granted by the colonies to the mother-country have come into being ; on Tariff Reform principles, therefore, the direction of our trade ought to have been exactly the reverse of what it was. This significant fact, however, does not reach back only to 1904 ; on the contrary, it is equally true of the last quarter of a century, during which foreign tariffs have become so formidable in appearance. In 1884-88 our trades with Europe, with extra-European foreign countries, and with British Possessions were nearly equal ; in 1904-1908 our European trade had far surpassed both of the others. Exports to Europe preponderated increasingly over the Imperial trade to the end of the century ; they then fell relatively during the South African war, but thereafter regained their former preponderance. Similarly, our trade with Europe has grown more rapidly than that with extra-European foreign countries ; an excess of the former of 12 millions sterling has grown into an excess of 22 millions. Neither has the extra-European foreign trade grown at a less rapid rate than that with our Possessions. On all grounds, therefore, there is no evidence to show that we are being driven out of protected markets or that we must rely mainly in the future on the Imperial connection. The appeal made by the Tariff Reformer that we should sacrifice our foreign commerce to the idol of the Imperial commerce, on the ground that increased employment lies that way, has not an argument to support it. We require both, and shall sacrifice

neither, and Imperial union cannot emerge out of the ruins of our prosperity.

THE CONTROVERSY ABROAD

There is, then, no reason to suppose that Protection has aided Germany in her industrial development. On the other hand, it has definitely and demonstrably increased the cost of living in the protected countries of Europe, and along with the higher cost of living is universally associated a lower rate of money wages than in Great Britain. To say, however, that Protection has not been beneficial to Germany is not to accuse her of committing a "childish error"; it will be found that revenue requirements were mainly instrumental in causing a reversion to the system of high Protection. The Franco-Prussian and the American Civil wars, together with the continually growing cost of armaments and of social reform, made new sources of revenue urgently required, and these in Germany, France, and the United States have largely been found in raising the customs duties to an ever higher level. The effects of Protection are therefore to be sought neither in any improved condition of the home-market for commodities or labour, nor in the lowering of hostile tariffs by means of retaliation, but simply in the obtaining of an increasing revenue. It must be remembered that the British system of public finance reached a higher and more scientific level at an earlier period than anywhere else in the world. It is with difficulty that France, even at the present day, is attempting to institute an income tax, and the power of the Agrarian party in Germany was sufficient a few years

ago to demolish Prince Bulow's contemplated reform of German taxation. An income tax was a necessary accompaniment of the repeal of the Corn Laws and Gladstone's measures of Free Trade; and in the United Kingdom a greater proportion of the revenue is raised by direct taxation than in any other country. On revenue grounds alone, therefore, it is not surprising that our competitors have been forced to maintain a protective system.

It is an error to class the entire population of a country as Protectionist, just as it is an error to class the entire British population as adherents of Free Trade. Not only do many German economists advocate Free Trade,¹ but the political party which polls the largest number of votes in the German Empire is a Free Trade party. In the elections of 1907 the Social Democratic party polled 3,258,968 votes, the next strongest party polling only 2,183,381 votes. A manifesto² issued by the Social Democrats on the eve of the elections reveals their attitude to the fiscal controversy :

"The Government policy of taxing and excluding foreign imports, supported hitherto by an Agrarian majority in the Reichstag, has introduced an unprecedented rise in the cost of necessities, especially of meat. This policy throws over 50 millions a year into the laps of our Agrarians at the expense of the non-Agrarian population. This policy means not only continually dearer food, but increasingly dearer food, because the population of Germany increases about a million annually, and the production

¹ e.g. Dietzel, Brentano, "the Epigoni," the Economic Society, the Union for Social Politics, etc., embracing some of the best known German economists.

² *Vorwärttes*, December 16, 1906.

of food within the Empire cannot keep pace with it.

“ The result is chronic underfeeding of millions of human beings, with all that it implies in the diminution of physical strength and incapacity for effort, the multiplication of illnesses, and the shortening of lives.

“ Not only meat, but bread, butter, eggs, and, above all, milk—the principal food of our children—have risen greatly in prices already, and the leaders of the Agrarian organisations are already considering how they can further take advantage of the situation in order to make life still harder for the poor and the very poor in town and country. If another great crisis comes the misery of the masses that proceeds from the maintenance of our Agrarian Protectionist policy will be beyond all computation. If you do not wish the hunger whip of the Agrarian chiefs swung yet further over your heads and the heads of your families, elect representatives who will make an end of this starvation policy.”

In France also Free Trade opinion is by no means silent. The debates in the French Chamber of Deputies on the tariff revision of 1910 were shared in by many deputies of Free Trade convictions, among them M. Paul Beauregard, M. Aynard, M. Edouard Vaillant, and M. Jaures. Again, M. Manchez, a great financial authority, and editor of the *Bulletin Financier* and of the *Temps*, succinctly asked at a meeting of La Conference Permanente du Commerce exterieur :¹

¹ *La Revue de l'Exportation*, August 1911.

“Who pays the customs duties? The consumer, even though the importer advances the money. . . . Everything is paid for in this world, and the payer is always the consumer.”

It is not claimed that Germany is forthwith going to adopt a Free Trade policy; but the revolt against Protection is so strong as to render the taunt that we are the only people in the world which believes in Free Trade futile in the extreme. The yearly reports on the trade and industries of Germany¹ prove that the revolt is not confined to the Social Democratic party, but has extended to the manufacturing and trading classes.

The Chamber of Commerce of Berlin recently reported that “the German method has proved impracticable: a conviction is steadily gaining ground that the present road can no longer be followed; that the present duties weighing upon all articles have granted the individual industries a protection for their manufactures, but that they render such protection illusory through the duties resting upon those raw and half-finished goods which they finish off.”

The Chambers of Commerce of Offenbach, of Barmen, Düsseldorf, and others have at various times issued similar protests. On the other hand, it is not denied that other classes in Germany—chiefly the Agrarians and the manufacturers of the “heavy” grades of goods and of half-finished products—uphold the maintenance of Protection or its increase. To say, therefore, that Germany, France, or the United States is Protectionist in opinion means nothing more than that the Protectionist party in these countries, fairly or by the aid of electoral laws, has a fluctuating

¹ e.g. Cd. 5465, 166.

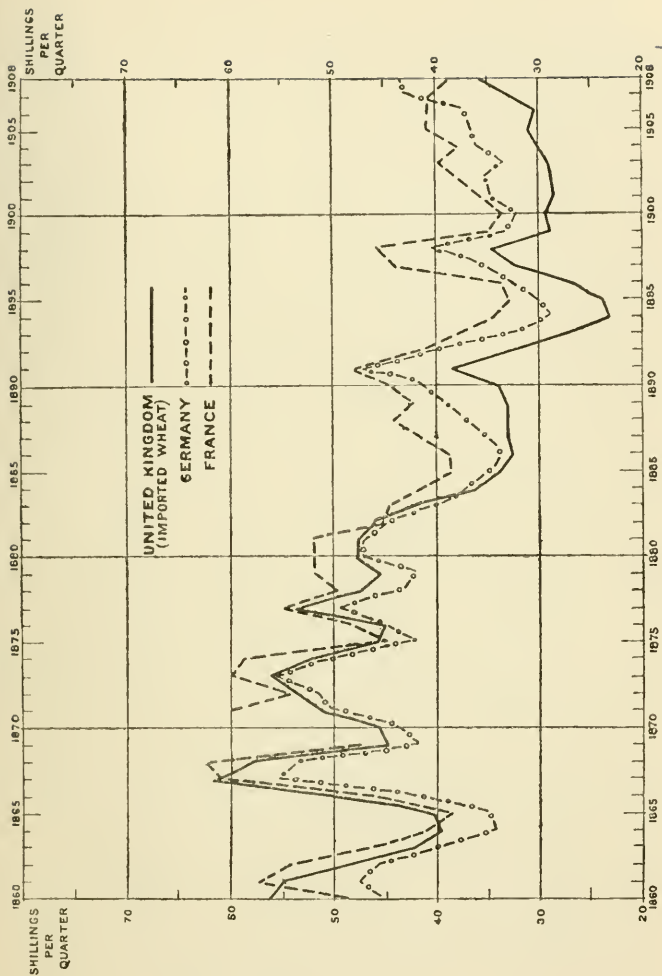
majority in Parliament, which may be temporary or permanent. The fiscal controversy is only less acute abroad than it is in this country, and it is, therefore, illusory to think of foreign nations as incurably wedded to Protectionist doctrines.

CHAPTER V

FOOD PRICES AND SUPPLIES

It is assumed by the Tariff Reformer that whereas in 1846 Great Britain could supply the whole world with manufactures, now she is being rapidly overhauled by foreign protected countries, and especially by Germany and the United States, and that consequently, whereas in the former period she could import food-stuffs on her own terms, she is now losing control of the supplies which she requires. From the practical point of view it is sufficient to point out the facts of the case. Not only are money wages higher in England than in any other country in Europe, but also the cost of food-stuffs is less.¹ Again, whereas before France and Germany imposed import duties on wheat, the price per quarter was uniformly lower in those countries than in Great Britain, the exact opposite has been the case since the import duties were imposed. The accompanying graph shows the fluctuations of wheat prices from 1860 to 1908 in the United Kingdom, Germany, and France. It will be seen that the curve of German prices has been consistently higher than the British curve since

¹ Board of Trade Reports on the Cost of Living in Towns of France, Germany, and Belgium.



FLUCTUATIONS OF WHEAT PRICES 1860-1908

1884, whereas before that year it was equally consistently below the British curve. The import duty on wheat in Germany was initiated in 1879, and was raised in 1884-5. The curve shows, as it approaches 1908, that the excess of German prices gets greater and greater, according as the import duty was raised. Just as foreign countries were getting food-stuffs cheaper than England when England was protected, so, when Germany is protected, cheaper prices are found in Great Britain. Neither has the protection of wheat-growing in Germany proved a success. Since 1880-84 the German consumption of foreign imported wheat has increased by 270 per cent., whereas the consumption of home-grown wheat has increased by only 59 per cent. The curve of French prices similarly shows that ever since 1868 France has paid more for her wheat than has England, and that the excess of French prices has increased with the increase of the French import duty. There is one exception, the year 1882, when the French price was lower than the English. In that year France had abnormal wheat crops: her home production amounted to 180 million cwts., compared with 143 million cwts. in the preceding year, and 153 million cwts. in the year following. But it has come about that the import duty is operative even in years when France is little dependent on foreign supplies. Since 1880-84 her imports of wheat have almost regularly decreased, until now they are but one-sixth of what they were then. Yet the excess of French prices over English has continued to increase. Even, therefore, when little is imported, the consumer is liable to pay the duty on a taxed article. The available evidence goes then to show that it is Great Britain which can import food-stuffs on her own

terms, and that protected countries are losing, through higher prices, control of the supplies which they require.

Wheat is merely typical of what is true in regard to other commodities. Not only the proposed tax on corn, but also those on meat and dairy produce, and on the whole range of manufactured articles, will increase the cost of living.¹ The "Dear Loaf," which is typical of the whole cost of living under Tariff Reform, because among the masses it is a main ingredient thereof, is indeed no illusion. Since 1870 down to 1900 the general level of prices in Great Britain has fallen by 26 per cent.; in France, on the other hand, it has fallen by only 7 per cent.² Since the rise of prices began in all countries, about the year 1896, that in Great Britain has been considerably less than in protected countries. In Germany prices have risen, according to Herr Calwer, by at least 27 per cent.³ Between 1896 and 1907 French import prices and internal market prices have risen by 33 per cent.⁴ Prices of clothing, fuel, lighting, and manufactured articles in the United States have risen over 40 per cent.⁵ Wages have failed to keep pace with the rise of prices. In Austria since 1900 food prices have risen 40 to 50 cent., and wages 21 per cent. In Hungary and Switzerland the

¹ Mr. Chamberlain's proposal was to give a "substantial preference" to the miller. The price of bread will therefore be determined by this preference, not by the duty on wheat.

² "La Richesse de la France," by Lavergne et Henry, 1908.

³ The course of German wages given in the *Reichsarbeitsblatt* for September, and quoted in *The Morning Post*, October 31, 1911, refer to the exceptional wages of coal-miners in the Dortmund district only, and are not typical of German wages generally.

⁴ *Annuaire Statistiques*.

⁵ *Bulletins of Labour*, Washington.

same course has been followed.¹ The rise of retail food prices in London has been 18 per cent. since 1895, and though the rates of wages as ascertained by the Board of Trade—which are different from the actual earnings—have not risen to correspond, yet the burden thrown on the shoulders of British labour has not been so crushing as that experienced abroad. The constant outbreaks of rioting for the last two years has revealed the social state of protected Europe to be far from salutary or enviable, and the rising discontent bodes ill for the future, if the policy of food taxes is maintained.

From the theoretic point of view it is sufficient to say that the keener the competition which assails us from foreign countries the greater is the necessity to keep industrial ability high: or, in other terms, to keep the “efficiency” cost of labour and capital low, and, by maintaining the purchasing power of wages at a high level, to extend the home demand as well as to keep labour efficient. The question to be asked is, Has our Free Trade policy enabled this to be done during the last half century? It is argued that the price of wheat did not markedly fall in this country until the institution of railways, telegraphs, steamships, and all the other mechanical devices for cheapening communication and increasing trade began to have their full effect. That is undoubtedly the case; but nevertheless at the very same period, where these influences began to tell most in the case of Great Britain they were prevented from having an equal effect in the case of France and Germany. The fact that the decrease in the price of wheat was slight from 1840 to 1870 proves nothing as to the effect

¹ *Investors' Review*, September 23, 1911, quoting Prof. Kobtsch and Dr. Bihavi.

of the import duty. After the repeal of the Corn Laws the price did actually fall by a small amount. It is true that in 1847 wheat rose to 69s. 9d. per quarter from 54s. 8d. in the previous year. Between the passing of the provisional Bill in 1846 and the complete repeal in 1849 the wheat crops were deficient all over Europe, and the new Corn Law had to be suspended on two occasions. The Bills of the suspension were rushed through the House of Commons without discussion or division. Yet, except in 1847, the price fell. As was written in 1841:¹ "It is not so much that the average would be reduced from 56s. 11½d. to 50s., or thereabouts, but that the actual price could not, as it is now in constant danger of doing, rise to 75s. or 80s." Almost immediately the influence of the great gold discoveries began to work, and continued till the seventies. It is therefore probable that, in face of the depreciated value of gold, prices would have been higher than they were had it not been for the repeal, or, otherwise, that prices would have fallen had it not been for the depreciation of gold.

The difference between the French and German prices and the British price of wheat has been maintained up to the present time. The effect of the duty has been disputed on the ground of a comparison between Russian and German prices of rye. Germany is, it is true, more a rye-eating than a wheat-eating country, although there has been for some time a progressively greater consumption of wheat than of rye. It is maintained² that the Russian producer of rye shares the burden of the German duty to the extent of about one-seventh. It is forgotten,

¹ W. T. Thornton: "The True Consequences of the Repeal of the Corn Laws."

² Ashley: "The Tariff Problem," p. 176.

however, that Germany imports annually less than 2 per cent. of the quantity she requires. The position is very different in the case of Great Britain, and in addition at a time when the supply-and-demand price of wheat is increasing she cannot afford to cut off any one of her sources.

Both Lord St. Aldwyn¹ and the late Lord Ritchie,² the Chancellors of the Exchequer who put on and took off the war tax of 1s. per quarter on corn, have declared that the duty raised the price not only of wheat flour but also of bread beyond what it would have been without the duty. But an increase of price was not the only evil of the duty. It involved the imposition of duties on no less than 49 different articles, most of which brought in little revenue and were simply a burden to trade. Moreover, out of a total revenue of £2,500,000 produced by the tax, no less than £582,000, or one quarter, was levied on the feeding-stuffs, the raw material of the farmer. An import duty on food-stuffs is then not such a simple thing as it appears to be: it involves not only a rise in the cost of living but a tax on the raw materials of a number of industries as well.

SUPPLIES OF FOOD AND RAW MATERIALS IN TIME OF PEACE

As long ago as 1820, Ricardo, in the House of Commons declared that an increase in the price of subsistence raised the price of labour, and therefore diminished the profits of stock; and, also, that if in peace we were in the habit of importing corn from one country, that country depended on our market, while, as a matter

¹ Manchester, November 5, 1903.

² House of Commons, April 23, 1903.

of fact, the supply would be derived from a great variety of countries. Such was his reply to the argument of those who asserted that by lowering the duties on corn this country would be at the mercy of other nations. The cry of the evil of dependence on foreign countries is as old and universal as the cry for Protection. It is, however, irrelevant to Tariff Reform, inasmuch as it is not an object of that policy to foster agriculture at home.¹ Our supplies of food and raw materials depend therefore on our purchasing power. That our purchasing power has not fallen off under Free Trade, and that there is no likelihood of its falling off in future so far as it depends on our industrial ability, has already been seen. The enormous increase of our purchasing power has been made possible not only by the fall in the price of bread and other food-stuffs, but also by the removal of the thousand odd other duties which impeded our commerce. The course of prices in the last century fell owing to the great extension of the area under cultivation, which made it possible for the supply rapidly to overhaul the demand. At the present time the demand has rapidly overhauled the supply: the new areas put under cultivation in recent years have indeed increased, but not sufficiently to supply the greatly increased demand of the whole world. The influence of a tariff is likely, therefore, to be greater in the future than in the past. The wheat crop of the world is a precarious one. In the course of a year or two the relative positions of the great sources of supply may be entirely reversed.

¹ Mr. J. Chamberlain, in letter to late Duke of Devonshire, 1903: "It is ridiculous to suppose that 2s. a quarter on corn would restore prosperity to agriculture, although the farmers might possibly support it as drowning men would catch at a straw."

India and Australia are liable to drought; the Argentine has experienced very bad seasons; both Canada and the United States are liable to severe climatical conditions; the Russian crop has failed probably oftener than any other. Between 1898 and 1908 the Canadian and Australian yields suffered three serious deficits, and the Indian yield failed four times. On these occasions our supplies have been completed by foreign countries. If ever the crops of Canada, Australia, and India fail simultaneously, how long will food taxation remain a bond of Empire?¹ The precariousness of the crops and the expanding demand of foreign countries are both urgent reasons why Great Britain should keep all her supplies free. At present the food-taxing countries are comparable to a combination of consumers: as is usual with those who stand outside the combine, Great Britain obtains her food on specially advantageous terms. It would be folly to surrender this privileged position.

THE SUPPLY OF FOOD-STUFFS AND RAW MATERIALS IN TIME OF WAR

In time of peace Tariff Reform has no power to secure our ability to purchase food-stuffs or raw materials. In time of war it has no more. Independence would not be secured by relying more on Colonial and less on foreign supplies: both, in the event of war, are equally liable to capture if we do not retain command of the sea. In this regard, the Declaration of London, which has been visited with the displeasure of the Tariff Reform party, but which was unanimously approved by the Colonial Conference, makes no

¹ There is no greater improbability that this should happen than that the sugar crops of Europe should fail simultaneously.

difference whatever in regard to the security of British supplies. The Declaration may not be ideal, but in this respect it initiates no change on what has always hitherto been the position. Apart from our command of the sea, the only method by which our supplies in time of war could be made more secure, is to foster home agriculture. This the Tariff Reform party does not propose to do. The cultivation of the total area of the United Kingdom could not render us appreciably safer, and then it could be done only at enormous cost. An increase of the cost of food and raw materials is equivalent to the cutting off of our supplies by a foreign nation. As one is to be feared, so is the other.

The decay of agriculture in Great Britain, and the loss that has resulted therefrom, has been grossly exaggerated. The gross income from lands returned under Schedule A of the Income Tax¹ has decreased from 56 millions sterling in 1870-71 to 42 millions in 1908-9; and the rateable value of lands in England and Wales has decreased from 39 millions in 1870-71 to 31 millions in 1899-1900. Between 1897 and 1909 the rateable value of agricultural land in England and Wales under the Agricultural Rates Act of 1906 has decreased by only half-a-million. A considerable part of the loss must have been due to the transference of lands to other uses, such as buildings and railways, according as manufacturing has taken the place of agriculture. In Great Britain in 1910, out of a total area of 57 million acres (inclusive of mountains, moors, lakes, and rivers) no less than 32 million acres were under cultivation. In Ireland, out of a total area of 21 million acres, no less than 15 million

¹ Agricultural Statistics, 1910. Board of Agriculture and Fisheries.

acres were under cultivation. The yield per acre of the principal crops has very considerably increased. During the last twenty years, the acreage under permanent grass, potatoes, small fruit, and orchards, and the number of horses, cattle, and pigs, have increased. The largest increases are in grass, cows, and pigs, and in the cultivation of fruit. These statistics show that the United Kingdom is more and more accommodating itself to the conditions imposed upon it by the development of the virgin soils of new countries. For this country to have refused to share in the rich produce of those virgin soils in attempting to compete with them would have been suicide! Denmark and Belgium, with Free Imports, have a flourishing agricultural industry. They, like France, and to some extent Germany, have not attempted to compete in corn, but have prospered under the system of "petite culture." The evidence goes to show that Great Britain can also prosper along the same lines. Much has already been done in Ireland to secure prosperity to small farming that can be done in Great Britain.

For the regeneration of agriculture, however, Tariff Reform has no policy; it merely bemoans the loss that has befallen it since the seventies, and has not the wherewithal to repair it. It cannot, therefore, do anything to secure our food supplies in time of war: for that we must depend on the strength of our Navy, and on the variety of our sources. In 1903 the Unionist Government appointed a Royal Commission to inquire into the supply of food and raw materials in time of war.¹ The Commission reported in 1905, and the following passage was signed by all the members:

"We also regard the present variety of sources from which supplies are drawn as likely to con-

¹ Mr. Henry Chaplin was a member of this Commission.

tribute to our advantage in time of war, since their wide geographical distribution must tend to minimise the risk of effective interference with our imports. It may also be said that the more numerous the neutral Powers supplying our wants, the less probable is the violation of international law by our enemies. There is, therefore, a certain advantage to us in the fact that the supplies of our principal food-stuffs are drawn in a greater proportion from foreign countries than from British Possessions."

There is no reason to differ from the finding of the Commission; nor has Tariff Reform anything to put in its place.

THE INCIDENCE OF IMPORT DUTIES

On general reasoning, the ultimate incidence of import duties is indeterminate. If the commodity is one for which the home demand is intense and the country imposing the import duty is only one of many possible markets for the commodity, then the tax falls on the home consumer by means of the rise in price. This is eminently the position in Great Britain in regard to her supplies of food-stuffs and raw materials. Tariff Reformers regard the theory of the incidence of taxation purely from the statical point of view, out of relation to the actual facts of the world's supply and demand. "In the near future there is likely to be an increased competition among the great industrial communities for the possession of materials and for food."¹ This being so, it is all the more true that the British consumer, who cannot do without food or materials at the cheapest possible price, will pay the whole duty on supplies for which there is an expanding market

¹ Cunningham: "Case against Free Trade," p. 129.

elsewhere. Prices have been rising for the last fifteen years, and most rapidly in recent years : yet this is the time when the Tariff Reformer chooses to say that prices, even under duties, will remain the same and may actually fall ! So long as both foreign countries and the British Dominions find increasing outlets for their produce in other parts of the world, the importation of merely colonial produce free of duty cannot prevent the price from rising to the full extent of the duty.

If, on the other hand, the taxed commodity be one for which the home demand is not intense, and if it be the only important market for the commodity, the tax falls on the foreign producer. This is to some extent applicable to British imports of manufactured articles which are not semi-manufactures. But even in the exceptional case where a high elasticity of demand is found in a country which is the only market for the commodity, the ultimate incidence of the tax is not always on the foreign producer ; for if the tax checks the demand for the foreign article it will, *ipso facto*, check the foreign demand for some article of ours, and thus the real incidence of the tax may be on the home producers of the latter.

General reasoning, therefore, leads to no determinate conclusion. But under modern conditions of trade it is irrelevant to say that the price of a commodity under Protection depends solely on the factors of demand and supply and on internal competition. What is alone relevant is the potential monopoly given by a tariff to producers who form open or tacit combinations or price-agreements. Thus the incidence of an import duty is as a practical question taken out of the field of the reciprocal forces of demand and supply, and becomes part and parcel with the incidence of monopoly values. The practical object

of protected manufacturers, in Germany, France, the United States, and other countries, is first to assure themselves freedom from foreign competition, and secondly to obtain freedom from home competition. The one has come to be a natural corollary of the other. The method adopted to obtain the first is the Tariff; the method of securing the second is to form a combination or price-agreement, and to crush out the smaller concerns. It is useless to argue, therefore, along the lines of economic theory about the influence of home competition so long as it is the case that in protected countries the tariff has been used to extinguish home competition. Once a monopoly—which to be effective need only be a preponderance as in the case of the Steel Trust—is secured, production is regulated according to the economic theory of monopoly values: it is more advantageous to make a smaller number of sales at a high profit than a large number of sales at a small profit. The result is less employment. It is said that public opinion and the power of Trade Unions in Great Britain would not tolerate the abuses of American Trusts. The same forces have had little effect in France or Germany. They have not prevented the growth of Combines in Great Britain, whose power of controlling prices is only limited by the possibility of foreign competition. In debates on the Tariff Revision of 1910 in the French Chamber of Deputies, M. Edouard Vaillant pointed to England as the country where exist the highest real wages, the shortest working day, and the most powerful organisation of the working-classes. Protection, he declared—and this is the universal experience—renders more easy the formation of Kartels, Trusts, Syndicates, and Agreements, and “at every moment the syndicate of producers is an organ of resistance to the raising

of wages. It is capitalism under its strongest form—the most to be feared by the working-class."

TARIFF REFORM AND REVENUE

The rise of prices and the incidence of import duties is intimately associated with the revenue aspects of Tariff Reform. When once it is determined whether the policy of Tariff Reform is beneficial or prejudicial to the industrial interests of the community, it matters little what its effect on revenue may be. If it is beneficial, it will increase the taxable capacity of the nation; if it is prejudicial it will decrease it. But the policy of Tariff Reform is offered as in itself an alternative mode of raising revenue, and so far it must be subjected to the test of purely revenue considerations. It is now admitted that the two objects of Tariff Reform are mutually contradictory; in so far as it is successful in providing employment it will bring in little revenue; and in so far as it brings in revenue it will fail to produce employment. It will produce, it is conceded, either revenue or employment, but not both together.¹ Only if it be admitted that Tariff Reform will not produce employment, can it be maintained as an alternative to the present financial system. Let us assume for the present that it is to be regarded as such an alternative. The plea for change is based on the ground that Free Trade finance is no longer capable of successfully meeting the calls made upon it; that if social reform and the defences of the country are to be adequately secured there is a necessity to broaden the basis of taxation by imposing duties on food-stuffs and on semi-manufactured and fully-manufactured imports. Doubt is immediately

¹ Cunningham: "Case against Free Trade."

thrown on the probability of this assertion by the general statement that foreign protected countries, whether France, Germany, or Australia, have adopted, or been fain to adopt, in order to pay for current expenditure, a large proportion of the financial practices of Great Britain. But a direct comparison is possible of the relative efficiency of the German and British methods of taxation. From the foundation of the German Empire to 1908—during a period of peace, except for two small expeditions to China and Africa—the German debt has increased by £123,000,000, exclusive of capital outlay on post office, printing office, and railways. In Great Britain the National Debt—apart from the South African war—has decreased. But the German debt is not to be measured merely by the Imperial debt. The total debt of the Empire and of the Federated States between 1881 and 1901 increased by 378 millions sterling; in Great Britain it decreased by 130 millions. Between 1904 and 1909 the former increased by 114 millions, and the latter decreased by 40 millions. The amount of debt incurred in Germany for current expenditure has increased most rapidly within the past ten years; that is, when the system of protective duties has reached its greatest application. In Great Britain, on the contrary, from 1906 debt has been repaid at a more rapid rate than at any previous period in the whole history of the debt. The test of fact therefore fails to substantiate the charge that Free Trade finance is outworn. It is replied that this is so only because industry is more severely taxed in Great Britain than in Germany, and this supposition is made a new ground for protection against “unfair competition.” It is argued that the conditions of taxation should be equalised by the imposition of a “toll” on

imports. Apart from the impossibility of making the proposed remedy effective, there is no ground for the supposition. Recent Consular Reports¹ have made it evident that German industry is more heavily taxed than British, quite apart from the effect of import duties in raising the cost of materials. In 1902 Mr. Haldane² estimated the Imperial taxation of France at £3 13s. 5*d.* per head of the population, of Prussia (exclusive of railway charges) at £3 17s. 6*d.*, and of the United Kingdom at £3 5s. Since 1902 these proportions have certainly not been altered to our disadvantage; and it is probable that, if local taxation were included, the comparison would be still more unfavourable to France and Germany.

At a time when it is stated that British finance is regulated solely by the convenience of the revenue collector, it is necessary to recall the principles which animated the fiscal reforms of Mr. Gladstone. Both Adam Smith and the Commission of 1840 found that only a small proportion of the taxed articles brought in a more than a negligible revenue to the State. In 1840 seventeen articles produced 94·5 per cent. of the Customs' revenue, twenty-nine more produced 3·9 per cent., and the remaining articles on the tariff, amounting to many hundreds, 1·6 per cent. This characteristic is probably true at the present day of all the protective tariffs of the world, and would certainly be true again of any British tariff that it is proposed to introduce. The levying of taxation, therefore, on hundreds of articles which produce little or no revenue, must be defended solely on the ground of affording protection to home industry; it cannot be defended on revenue grounds. To this class belongs the project of

¹ Consular Report on District of Düsseldorf 1910.

² House of Commons, April 21, 1902.

levying import duties on motor-cars under the guise of taxing the rich man's luxuries—it is merely a method of allowing the propertied class as a whole to escape their fair share of taxation. But the failure of the protective duties to bring a large amount of revenue to the Exchequer does not imply that the consumers of imported commodities are not taxed: they pay, not to the Exchequer, but to the pockets of private individuals. Professor Brentano has estimated that in 1908, out of the total burden imposed by the German duties on rye, wheat, and oats, on the consumers of these commodities, 2s. went to the Exchequer and 18s. to private individuals. The higher the duty, the less the import, the more goes to private pockets. The taxation of the rich man's motor-car is none the more defensible because he is rich: it is as unjust to make the rich man pay toll to private interests for his luxuries as it is to make the poor man pay toll for his bread.

Protective duties violate the cardinal principle of taxation that it should cost as little to people's pockets as it can be made to cost. That this principle cannot be realised in its entirety may be a misfortune, but that fact does not justify the antagonistic ideal of the Tariff Reformer. The result of protective duties is, therefore, by mulcting the entire community for the profit of the few, to decrease the taxable capacity of the nation. The result of the Gladstonian reforms was to increase it. The principle of those reforms was that there should be no duties on necessities,¹ but that duties should be levied on relative luxuries of general consumption. The object was not merely to reduce the taxation on the working-classes, but by setting trade free to give

¹ At the time of the reforms sugar had not the importance as a necessary food which it has to-day.

“the widest field and the highest rate of remuneration for labour.” The trade of the nation and the earnings of the working-classes immediately responded, so that in 1860, after reducing the number of articles on the tariff from 1,053 to 48, Gladstone was able to say that “a process of this kind always blesses both him that gives and him that takes; but him that gives, as we have found by a happy experience, even more, and much more, than him that takes the gift,” and to point out that whereas the trade of some foreign nations had been advancing more rapidly than British trade before the reforms, the opposite was now true. By the Free Trade principle taxation is levied according to the ability to pay; the less wealthy pay on their luxuries, which are certain consumable commodities; the more wealthy pay on their luxuries, which consist of real and personal property. Progressive taxation on unearned incomes has been found necessary to adjust the balance of taxation. Were the attempt made to substitute taxation by tariff duties, the propertied classes would simply escape; you cannot make the rich man pay his fair share by taxing his cigars. The principal object of taxation is to raise revenue; if it conflicts with that principle it is to be condemned; if it does not conflict with that principle, the attainment of political effects through taxation is not injurious. Even if the principle of Wagner, who had so much influence on German taxation, be accepted that the object be not merely to raise revenue but to alter the distribution of the national income, it remains true that protective duties alter it in favour of the rich alone, while the Free Trade practice of taxing both the working-classes and the rich through their luxuries secures as equal a balance as it is possible to obtain.

CHAPTER VI

EMPLOYMENT AND FOREIGN INVESTMENTS OF CAPITAL

THE EXPORT OF CAPITAL AND THE EXPORT OF GOODS

THERE are countries which constantly, and as a normal state of things, import largely in excess of their exportation of goods, and there are others of which the exports as regularly exceed the imports. In other cases again, imports for a time exceed exports and then the relation is inverted and exports begin to outstrip imports. But in the case of every country there must be an equation or a settling of international liabilities, else international trade would cease ; this equation is made largely by the payment of loans of money or by the payment of interest thereon, that is, by the investment of capital abroad, with its consequent return in interest.

A loan may be sent abroad either in gold or in goods, or partly in one and partly in the other. In the long run it must be sent out in the form of goods, for the importation of gold into the foreign country would so far raise the general level of prices there, and consequently there would be a tendency reflected in the Exchanges for the people of the country to buy abroad what they could not

get so cheaply at home and for previous customers to buy their goods elsewhere. In other words, there would be a tendency for imports to increase and for exports to diminish until the balance established was exactly equal to the amount of the loan which had been remitted in gold. In actual practice the effect of the movement of gold on prices is obscured by a multitude of other considerations; but the effect is there all the same. Similarly, in the case of the country which sends out the gold there would be a tendency for prices to fall, and hence for imports to decrease and exports to increase until the balance established was exactly equal to the amount of gold sent out. It is clear then that when capital is sent abroad it is sent out in the form of goods made by the labour and capital of this country. Foreign investment means the forwarding of goods to a foreign country on condition of deferred payment, or on condition that the country which receives them undertakes to send back so many goods each year until it has fully repaid the original loan with interest. Any attempt to prevent the importation of goods representing interest would mean the stopping of the labour of this country which is employed in making these goods which are sent out as capital loans.

A loan of a million sterling a year for twenty years at 5 per cent. is negotiated between Britain and one of her colonies. In the first year the mother-country sends out to the colony one million pounds' worth of goods. In the second year she sends out one million pounds' worth and receives the fifty thousand pounds' worth of goods which the colony now owes as interest. In the third year she sends out a million pounds' worth of goods and receives a hundred thousand pounds' worth of goods, now owed as interest. At the

end of twenty years the colony owes one million pounds in interest, that is—as much as the original yearly loan. In the twentieth year £1,000,000 is sent out in the form of goods which the colony requires, and £1,000,000 is imported by the mother-country in the form of goods which she requires.¹

If we suppose the loan to go into the twenty-first year, the million pounds' loan would be sent out to the colony, and the colony would send to the mother-country one million and fifty thousand pounds' worth of goods. In the twenty-second year the loan of a million pounds would be sent out and the colony would send to the mother-country one million one hundred thousand pounds' worth of goods; and, therefore, if at any time the mother-country should cease to send out capital loans the effect would be seen in the gradual increase of her imports, and in the fact that her exports relatively to her imports would remain stationary.

On the other hand, if at the twenty-first year the mother-country contracted to send out to the colony an additional million, making a loan of two millions a year, the mother-country would export to the colony two million pounds' worth of her produce and import one million and fifty thousand pounds' worth of colonial goods. The same process would go on during a second period of twenty years, the exports from the mother-country being increased by the loan, her imports being increased by the receipt of the interest, and, after the twenty years were over and the loan ceased, her imports growing greater and greater in proportion to her exports. Unless the mother-country continues to send out capital

¹ In actual trade the export of capital and import of interest may be indirect or roundabout, and not necessarily a direct trade between creditor and debtor countries,

loans in ever-increasing quantities, her imports must increase at a much greater rate than her exports. On the other hand, if she is willing to invest her capital abroad freely she has a means within her own control of maintaining the increase of her exports at a high rate.

In the event of Britain ceasing to export capital, she would still take imports in payment of the interest on the capital which is at the present moment invested. This interest is calculated to amount at the present time to £155,000,000 per annum. At the same time, the export of our produce which formerly was sent out as capital loans would cease, and our exports consequently would be less than they actually are by tens of millions of pounds. Instead of our importing, as we now do, over £600,000,000 worth of goods and exporting slightly under £400,000,000 worth, we should probably, if the exportation of capital were stopped, import the same amount but export only under £300,000,000 worth. In that case British labour would not benefit by stopping the exportation of capital.

INVESTMENT AT HOME AND ABROAD

Are ships carrying out British bonds as ballast? Sir Robert Giffen many years ago put on record that he had read a calculation in which the difference between the imports and exports of Britain for twenty years was added up, and the conclusion derived that the United Kingdom had run into debt with foreign countries during that period to the extent of one thousand million pounds. If a country were to run into debt in this way, and if it cannot pay in goods, it must

pay by the export of securities. But securities are merely pledges to liquidate indebtedness at a future time ; and if the United Kingdom during all the time she has had an excess of imports had not been paying for them either in goods or in shipping and banking services she would have gone bankrupt long ago. If this process of incurring debt had been going on, the Stock Exchange would have shown daily evidence of it. So far from Great Britain exporting securities, she is constantly importing them. She is constantly lending and not borrowing. The extraordinary vitality of her trade during the last fifty years has enabled her to put the borrowing countries under an obligation to her for a long time to come.

Do foreign investments offer so high a return to the investor that the requirements of capital at home are neglected? A large proportion of capital subscriptions at home are private, and not public, as are the majority of foreign subscriptions. There are enormous private subscriptions in the north of England which are never recorded as public issues in London. Hence the known foreign investments appear greatly to exceed the home investments, which are for the most part publicly unknown. No evidence has been produced that home industrials suffer from lack of capital. It is incredible that the enormous increase of the British export trade—an increase amounting to over 50 per cent. in quantity from 1900 to 1910—could have taken place without a large amount of capital being invested at home. The gross receipts of railways

¹ The export of capital, which is equal to the import of securities, should be distinguished from the export of securities, with which the export of capital for investment abroad is often confused.

in the United Kingdom have increased from £85,000,000 in 1895 to £120,000,000 in 1909. The receipts of tramways and light railways have more than doubled in the last ten years. The number of registered companies having a share capital and carrying on business was 19,430 in 1895, and 46,474 in 1909, the paid-up capital having grown from 1,063 to 2,163 millions sterling. According to the *Economist*, the average net profits of 775 industrial companies in Britain from the spring of 1909 to the spring of 1910 were 8·2 per cent. on a capital of 600 millions sterling. The average dividend paid was 7 per cent., and £12,000,000 was added to reserve. On the other hand, according to an article in the *Times* South American Supplement, the average dividend paid on all British investments in South America is 4·73 per cent., and even in Argentina 4·8 per cent. Some of the capital invested in South America is doubtless not as yet interest-bearing. But it is unlikely that investors should leave to starvation industries that are now paying 7 per cent. for the sake of speculations that now afford less than 5 per cent., even with the prospect of larger returns in the future.

THE FUNCTION OF FOREIGN INVESTMENTS

It is calculated that the annual savings of the British people now amount to nearly £350,000,000. All this cannot be profitably employed at home. The capital we send abroad is surplus capital, which is left over when the demands of the home market are satisfied, and it is the normal condition for a large portion of our annual savings to be placed abroad. It is not only the normal condition, but it is the

necessary condition if our industries are to be maintained in health. Investment abroad creates additional employment in the United Kingdom in producing the goods which are exported when the capital is sent out—employment, that is, which is additional to what would be necessitated by the requirements of the home market alone. Further, foreign investment extends the production of food-stuffs and raw materials, and so lowers the cost of, and thereby extends the amount of production of manufacturers in the United Kingdom. The main economic function of British capital invested abroad has been to guarantee an ever-increasing supply of the materials of British manufacture. The large amount of capital which has recently been devoted to rubber production not only gives employment to British labour in sending it out in goods, and through the interest obtained increases the amount of future capital which will be available for British industry, but also decreases the cost of the raw material, and thereby will increase the output of those industries which require cheap rubber.

British home investments during the last sixty years have been estimated at 8,000 millions sterling. Mr. Paish, before the Royal Statistical Society, calculated our foreign investments up to the end of 1910 at £3,191,836,000. Protection has not had the effect of keeping capital in the protected market. The foreign investments of France and of Germany are calculated to amount to £1,600,000,000 each. The United States have borrowed, it is estimated, a total of £1,200,000,000, which has been devoted to the extension of cotton and wheat growing, to laying down the thousands of miles of railway track which the progress of America renders necessary every

year, and without which the increased production of cotton and agricultural produce could not take place. Of the total British foreign investments of 3,192 millions, about 1,628 millions have gone to foreign countries and 1,554 millions to British Possessions. The distribution of this capital shows that it is invested almost entirely in the extension of cultivation in the partially developed or undeveloped countries of the world.

Not only do these foreign investments stimulate the cheap production of raw materials and food-stuffs, but the fact that we obtain these imports without the necessity of having to send out further exports in order to pay for them, increases the reward to the same amount of labour, or increases the reward per unit of labour employed. Regard should be had not only to the amount of British labour employed, but also to the reward to each unit of that labour, otherwise we fall into the fallacy of making work for work's sake, without the creation of additional reward or an increased national revenue.

CHANGING THE CHARACTER OF FOREIGN TRADE

The willingness of foreign nations to borrow our capital is a willingness also to purchase our goods. Now, the field for investment in the new and undeveloped parts of the world is almost limitless as compared with the restricted field for investment at home. In other words, there is always a willingness on the part of foreign nations outside of Europe to borrow our capital, and if we accede freely to the demand, it follows that the expansion of our foreign trade is brought about mainly by ourselves, without the aid of tariff wars. The dumping of manufactured goods

is checked. When British capital is freely invested abroad, a tendency is set up whereby prices fall at home, and conditions become favourable to increased exports and decreased imports. On the other hand, when British capital is kept at home, when it is either not employed at all or employed unprofitably, prices at home go up and conditions become favourable to increased imports and decreased exports. In addition, Great Britain is mainly a producer of fully-manufactured goods, and hence when prices rise in Britain it is mainly the prices of fully-manufactured goods that rise, and accordingly our exports of manufactures that fall. On the other hand, when prices fall in Britain it is mainly the prices of fully-manufactured goods that fall, and hence our exports of manufactured goods increase.

In the period 1891 to 1903 we exported relatively little capital abroad. There was a general breakdown in the world's credit in the first part of this period. There were revolutions in both Brazil and the Argentine Republic; the price of silver fell in every silver-using country, and the fall dislocated the Exchanges, and the number of silver-using countries, or countries without a gold standard, was greater then than it is now. There was a banking crisis in Australia, and a currency crisis in the United States. At the end of the period there was the war in South Africa, which monopolised British surplus capital, though it did not affect that of other European nations. In the first part of this period the surplus capital of every European State remained in large part at home. In the second part conditions were reversed—there was recovery in South America, the banking and currency crises of Australia and the United States came to an end, a gold standard was adopted in America and India.

Consequently all the time when British capital was monopolised by the demands of the South African war there was nothing to prevent German foreign investments reverting to their former level. At the beginning of the century German investments abroad increased enormously, and were followed by that expansion of trade which set Tariff Reformers agog. In the meantime British capital was employed in financing a great building boom, the unprofitable nature of which was experienced no long time afterwards by those in the building trade. An enormous quantity of home municipal stocks was created. There were large Government loans for works, and, in the latter period, for the war. British railways watered their capital by huge amounts of stock, which have been proved useless both to themselves and to the country. Expensive retail shops were erected in our large towns after American models; fancy prices were paid for breweries and public-houses, and excessive sums were paid to private manufacturers for their works. Since 1903, however, British foreign investments have recovered, as those of Germany had done by 1898 or 1899, and this recovery was followed, as in her case, by a vast expansion of foreign trade.

In the first period, 1891 to 1903, the period of little foreign investment, the exports of British produce increased by £39,300,000. In the second period, 1903 to 1910, the period of large investments abroad, the exports of British produce increased by £135,300,000 (exclusive of ships and their machinery).

Again, in the first period our net imports of colonial and foreign goods increased by nearly £99,400,000. In the second period they increased by £101,700,000.

To put this in a different way: In the first period the increase of our trade showed an excess on the side of imports of £60,100,000; in the second period it showed an excess on the side of exports of £33,600,000.

To turn next to manufactured goods only. In the first period the exports of manufactured goods increased by only £19,400,000. In the second period they increased by £104,500,000. Net imports of foreign and colonial manufactured goods, on the other hand, increased by £40,300,000 in the first period and by only £13,200,000 in the second period. An excess of increase on the side of imports of foreign manufactured goods of £20,900,000 in the first period was changed into an excess on the side of exports of British manufactured goods of £91,300,000 in the second period.

Turning lastly to our exports and imports of raw materials: In the first period the exports of British raw materials showed an increase of £10,900,000. In the second period the increase was only £6,300,000 more. On the other hand our net imports of foreign raw materials increased in the first period by only £12,600,000; in the second period they increased by £64,500,000.

Thus an excess in the increase on the side of imports of raw materials of £1,700,000 was turned into an excess of £47,300,000 on the side of imports.

Capital investment abroad does not merely affect our foreign trade. It has a reciprocal effect on our home trade, because it, in turn, attracts more capital. The cotton industry, for example, has attracted large amounts of new capital. Owing to the American breakdown at the end of 1907 and to the scarcity of raw cotton, this new capital has not been fully employed, but

these conditions are temporary, and there are already signs of recovery. The tendency of foreign investments in the long run must be to increase the supplies and lower the prices of articles which we buy from abroad ; to increase the real national revenue, to increase the purchasing power of everybody in the home country, and so to create a greater demand at home for home produce. The distinction drawn between imports consumed by the mass of the people and imports consumed by the investors of capital abroad is a totally illusory one. It does not exist. The portion of the population which is employed in making goods which are exported in the form of capital investments are rewarded in exactly the same form and at exactly the same time as that which is employed in any other way. The investors themselves are the only persons who require to wait for the return on their investments. It has been said¹ that the decadence of Rome was due in some degree to the fact of her large imports. If so, the course of most old countries in the world is now a decadent one, and it is unlikely to be altered by Protection or anything else. It may have been that Roman industrial ability was insufficient to pay for her imports, that, in other words, Rome was piling up her foreign debt. It may be that some countries may at some periods incur excessive obligations, as in the case of India, or, again, Australia in the eighties. But such a condition, bad as it may be, cannot endure for long. If Great Britain were importing beyond her ability to purchase, she would be piling up new debt, not investing abroad ; she would be selling her securities, not importing the securities of other nations.

¹ Cunningham : "The Case against Free Trade."

CHAPTER VII

THE BARGAINING VALUE OF TARIFFS

THE PROSPECTS OF RETALIATION

A CERTAIN number of people have joined the Tariff Reform ranks because they believe themselves to be Free Traders. They are of opinion that if Great Britain adopted a tariff of import duties, foreign protected countries would immediately lower their tariffs against us. This view is worth attention, and on matters of principle Free Traders have no quarrel with this school. Adam Smith expressly preserved to Free Trade the right to adopt a policy of Retaliation on occasions when necessity arose and expediency dictated the policy. Modern Free Trade statesmen, no less than the great economist, have reserved to themselves the same right. The matter then is not one of principle, but one of expediency purely and simply, and the question to be asked is whether the adoption of a tariff for purposes of retaliation is likely to be successful in its object. That object, be it observed, is directly contradictory to the protection of home industries and to the policy of Imperial Preference. In so far as it was successful, it would necessarily make an inroad into either of the two other professed objects of the Tariff Reform party. The object

of Retaliation must also be brought into relation with the means which are actually proposed to bring it about. The average duties levied on British manufactured goods by the chief protected countries, against whom the policy of Retaliation is desired almost solely, are very high. In Russia they average 131 per cent., in Germany 25 per cent., in France 34 per cent., in the United States 73 per cent., and so on.¹

On the other hand, the tariff proposals now before the country are to levy import duties on foreign manufactures of not more than 10 or 15 per cent. Among the protectionist statesmen of the world, we are told, "unilateral" concessions are out of fashion, and "bilateral" concessions are insisted upon as an essential to tariff bargaining. If, then, we agree with Russia to take off our 15 per cent. duties on her goods, on condition that Russia takes a similar amount off our goods—and she would be unlikely to take off much, if any, more—with what should we be left? A duty of 116 per cent. would still remain. In the case of the United States, a duty of 58 per cent. would still be raised against British goods, and in these lower duties other nations, with few exceptions, would share, by virtue of the most-favoured-nation clause. It is clear that we should be none the better off if Russia ranged against us a duty of 116 per cent. in place of a duty of 131 per cent.

THE EXPERIENCE OF FRANCE

But there is no reason to suppose that even this reduction would result. Modern European experience has utterly discredited the system of Retaliation by tariffs. In 1892 France adopted

¹ Cd. 2337 (1904).

the system of minimum and maximum tariffs for the purposes of negotiation. As the name implies, no reductions were to be made below the minimum tariff. As the system of a double tariff is now being adopted by most protected countries, it follows that Great Britain, if she adopted a tariff for the purposes of bargaining, could in no case hope to get reductions under the minimum tariff. As she already gets that tariff, by virtue of the most-favoured-nation clause, it follows that she would be no better off, even if she were successful in bargaining, than she is now, while, if she were unsuccessful, she would be handicapped by the maximum tariff. Since 1892 France has conducted a long series of commercial negotiations with foreign countries.¹ What has she gained? Against her wish, she has been forced to alter her minimum tariff many times in the direction of reduction of duties, and in each alteration, constituting a new "minimum" tariff, Great Britain has shared. In return for concessions, France has gained nothing whatever beyond what she had before 1892, and nothing beyond what Great Britain also has. As a result of eight years' negotiations she has procured for French produce in all the countries of Europe, Portugal excepted, the most-favoured-nation treatment. This is precisely what she had before the negotiations by means of the new tariff started. M. Arnauné states that the French Protectionists have come to recognise that, "instead of reserving for ourselves the absolute control of our tariffs, we are losing all hold over those of other nations, and that we are exposing ourselves to differential treatment ruinous to our foreign trade."

The conventional German tariff is applicable to French products in virtue of the Treaty of Frank-

¹ Arnauné, "Les Tarifs de Douane."

fort. Yet the intentionally minute specialisation of the articles contained in the German tariffs has prevented the most-favoured-nation clause producing its natural effect. The specialisation of tariffs has been supposed to deprive Great Britain of the value of the most-favoured-nation clause, yet here we find that one of the most highly protected nations in the world is complaining of precisely the same differential treatment. The idea that any one nation can minutely specialise against every other country in the world individually is fantastic in the extreme: and the specialisation of tariffs being granted, it still remains true that the most-favoured-nation clause secures to Great Britain everything which is secured by a high tariff.

THE GERMAN TREATY STATES

The theory of commercial reciprocity treaties has been expressed most clearly by Mr. Balfour¹ in the following words: "Better terms can be obtained for your commerce by entering into bargains and arrangements with other great producing countries based upon the mutual arrangements and re-arrangements of tariffs." Better terms, that is, than can be gained from mere reliance on the most-favoured-nation clause. "Two people who are bargaining with each other, and who are each making reciprocal sacrifices, take no great interest in a third party which stands by, looks on, gives nothing, and expects to get all. And it is not, therefore, any wonder that we sometimes find that the two bargaining parties have so arranged their bargain that while we, nominally, get everything which they get, we do, in fact, get very much less." This theory, attrac-

¹ Albert Hall, May 23, 1911.

tive as it sounds, remains nevertheless a theory. The experience of France proves conclusively that it does not work out in practice as Mr. Balfour conceives. The theory is equally belied by the experience of the German Treaty States, perhaps the largest aggregation of nations bound together by tariff treaties. The German treaty system has actually been pictured by some as the most impregnable barrier against British trade. The principal countries which have concluded tariff treaties with Germany are Austria-Hungary, Belgium, Switzerland, Italy, Russia, and Roumania. What advantages have these countries gained over Great Britain?

In 1909 the value of the imports from Great Britain into Germany were surpassed only by those from Austria and Russia, while the value of the British manufactures imported fell not far short of those sent by the six treaty countries combined. The imports of British cotton goods were more than six times as great as those from all the others. In 1906 the new German tariff came into force, and it is possible to compare the rates of duty levied on the Treaty States and on Great Britain according as they are higher than, equal to, or less than the minimum rates of the previous German tariff.¹ The result is that, in regard to all imports, a *less* proportion of British goods enters Germany under the most disadvantageous tariff conditions than in the case of any of the treaty nations except Switzerland and Italy, and that a *greater* proportion of British goods enters under the least disadvantageous tariff conditions than in any other case except Russia and Roumania. In regard to manufactured imports alone, the greatest proportion of goods which come under both the most and the

¹ Return No. 144 by Board of Trade, 1911.

least onerous duties occurs in the case of Great Britain. Taking next the trade in which Great Britain is most interested—the case in which Tariff Reformers avow that we are most unfairly treated—namely, cotton yarns and manufactures, we find that the higher rates apply to a smaller proportion of the British trade, and the lower rates apply to a very much greater proportion of the British trade, than in the case of the other great cotton manufacturing countries which have made special tariff agreements. We are therefore entitled to conclude that without tariff negotiations Great Britain has obtained rates of duty which are less than the minimum of the former German tariff in regard to a greater proportion of her trade than any of the six Treaty States. Thus the test of fact shows that Mr. Balfour's theory fails, and that both nominally and in reality the most-favoured-nation clause secures for Great Britain everything that the Treaty States obtain from tariff negotiation, and something more than each Treaty State individually.

THE JAPANESE TREATIES WITH GREAT BRITAIN AND GERMANY

If further evidence were wanted, it is to be found in the recent Anglo-Japanese and Germano-Japanese treaties. These treaties, concluded within a short period of each other, and including in each case concessions granted by Japan in the form of duties below the level of the new Japanese tariff, present an opportunity, clear of complications, of contrasting the bargaining power of two Governments respectively with and without a tariff. What concessions did each gain? To both has been extended the most-favoured-nation

treatment. The prefatory note¹ attached to the English treaty sufficiently describes the terms made by Great Britain. "Broadly speaking, the effect is that, in the case of cotton tissues of the classes which specially interest British trade, the new duties on grey tissues are reduced by proportions varying from one-third to one-fourth, with consequential reductions on other kinds: in the case of the more important classes of tissues of pure wool, by proportions varying from one-fourth to one-fifth; in that of tissues of wool and cotton mixed, and of linen yarns, by about one-fifth; in that of certain classes of iron and steel plates and sheets, including galvanised sheets and tinned plates, by amounts varying from two-ninths to two-fifths; in that of pig-iron by about one-sixth; and in the case of paints by one-third. The imports of the above articles from the United Kingdom into Japan are valued at about £3,500,000 per annum, or over 80 per cent. of the imports of like articles from all sources." Great Britain, therefore, obtained reductions of duty on the branches of trade in which she is mainly interested. Germany, on the contrary,² failed to obtain any reduction whatever on her chief article of export to Japan, namely indigo, of which she sent to Japan an annual average of £600,000 in 1907-9. Nevertheless, in 1894 Great Britain had succeeded in securing a substantial reduction in the duties on indigo, while in 1906 Germany was unable to prevent an increase of duty on synthetic indigo, although that on natural indigo from India remained unchanged. The most important reduction obtained in the German treaty with Japan is that of one-fifth on "alizarine dyes, aniline dyes, and other coal-tar dyes not otherwise provided for." In 1909 German exports to Japan of

¹ Cd. 5556.

² *Board of Trade Journal*, July 13, 1911.

all dyestuffs was £377,200. For the rest, Germany gets a reduction of one-fourth on certain leathers, the total export of all leather being £27,100; reductions of 40 per cent. and 55 per cent. on salicylic acid and quinine respectively, the value of which is too small to be mentioned in the German trade returns; a reduction of one-fourth on "undyed or unprinted worsted yarn not exceeding 32 metric," of which Germany exported in 1909 £266,659; and similar reductions on certain tissues of wool and cotton mixed, on packing-paper or match-paper, on certain zinc plates and sheets, on gas, petroleum, and hot-air engines and dynamos connected with these, all of which are items of little value. The total trade on which Germany has obtained reductions thus amounts to considerably under £800,000, or between one-fourth and one-fifth of the value of the British trade on which reductions have been gained. With the failure of Germany to obtain concessions on her most important export, there passes away the illusion that a tariff confers bargaining power.

THE DISCREDIT OF TARIFF BARGAINING

Those men who, being Free Traders, are enamoured of the doctrine of tariff negotiation, and believe that if we adopted a tariff for this purpose the rest of the world would forthwith return to a state of Freer Trade, have got to reconcile themselves to the facts of experience. The Anglo-Japanese tariff shows that we have still left to us the power of negotiation, without a reversal of our fiscal policy. Experience equally well shows that successful commercial negotiation depends not at all on the possession of a tariff—if it did, the present proposals of the Tariff

Reform Commission would be a mere bagatelle—but on totally different factors. In the case of the Brussels Convention, our power probably rested on the recognised failure of the Bounty system abroad; in the case of Japan it rested on financial and political considerations. The failure of Germany in her tariff war with Canada was inevitable, inasmuch as German exports to Canada consisted mainly of manufactured articles which Canada desired to make for herself, while Canadian exports to Germany consisted of raw materials which Germany could not forgo. The success of retaliation, therefore, depended on the industrial positions of the countries concerned. The position of Great Britain from the point of view of tariff bargaining is even worse than that of Germany: 80 per cent. of our exports consist of manufactures, 77 per cent. of our imports of food-stuffs and raw materials. It is this fact which would have made reprisals against Japan worse than useless. We should have no power in the matter of bargaining by tariff against the United States or Russia, because our imports of manufactures from these countries are only a negligible proportion of what we require to buy from them. In any event the experience of France and Germany is that the erection of a tariff by country A against country B leads to the erection of a still higher tariff by country B against country A.

Within the last year Germany has concluded tariff agreements with Portugal, Sweden, the United States, and France.¹ German opinion has already pronounced these agreements a failure. In spite of the tariff war, Canada still differentiates against German exports. German Protection has taught the protectionist doctrine to other countries. "The industrial part of the German

¹ Cd. 5465, 166.

population," writes Sir Francis Oppenheimer, "openly admits that its own increased protection has taught foreign competitors a lesson of doubtful value to Germany." More than one can play at the game of tariffs, as of armaments; and tariffs and armaments continue to increase on all sides. The Berlin Chamber of Commerce has been brought to advocate tariff reductions, "more especially as such a change of front would induce other countries to lower their tariff walls." The Chamber of Commerce of Barmen has declared that the present German methods cannot be continued. "It is then admitted," continues our Consul-General, "in authoritative quarters throughout Germany, that German protection, which has led to a counter-protection abroad, has not assisted but impeded the expansion of German trade."

M. Arnauné has come to precisely the same conclusion in regard to France. Tariff retaliation as a practical policy has no longer credit in the heart of Protection. Industrial, like military, armaments have failed to lead in the direction of peace or the expansion of trade. If they are to be limited, some other method than tariff retaliation must be adopted. M. Jaurès¹ has proposed that the Governments should promote an international congress with a view to adopting the policy of mutual disarmament in regard to tariffs. What better leader in such a movement than Great Britain, herself unarmed?

¹ Debates in Chamber of Deputies, 1910.

CHAPTER VIII

LAISSEZ-FAIRE AND FREE TRADE

FREE TRADE ECONOMISTS AND THE MANCHESTER SCHOOL

It is a taunt born of the unhistorical myths that have arisen fast and thick during a decade of bitter controversy that Free Traders of the present day are no longer true to their own principles, no longer consistent with the undiluted "laissez-faire" economists and statesmen of the past. It is even suggested that one more inconsistency in accepting the abolition of free imports would not greatly strain the conscience of the Free Trader. Inaccuracy such as this shows that the "Manchesterismus" and "Smithianismus" of the German school of economists—mere parodies of what were the real tenets of the Manchester school and of Adam Smith, much as Machiavellism has but slight resemblance to the principles of Machiavelli—have been studied to the neglect of the actual writings of the English economists. Neither English economists nor English statesmen have ever been dominated by the ideal of laissez-faire. Even McCulloch, who is generally taken as the type of high-and-dry orthodoxy, approved of factory legislation for women and children, of interference in regard to the housing of the poor, of compulsory

provision for the able-bodied poor, and of a national system of popular education. The association in popular thought of absolute freedom of competition with Free Trade seems to arise from the popular confusion of economics as a science and as the art of government. The adoption of perfectly free competition as a scientific ideal was, in the opinion of Sidgwick, merely a means of simplifying, for the convenience of general reasoning, the economic facts which society presents; it did not in his mind imply its adoption as a practical ideal which the statesman ought to aim at realising as completely as possible. Sidgwick himself drew a distinction between governmental interference in the production and distribution of wealth; that freedom of competition in the former would result in the maximum return did not imply that freedom of competition would bring about a just distribution of the product. John Stuart Mill again declared that the ends of government were as comprehensive as those of the social union, and that they consisted of all the good and all the immunity from evil which the existence of government could be made to bestow. He did not for that reason cease to be a consistent Free Trader. The Manchester school, with whose beliefs, relevant or irrelevant, the modern Free Trader is now saddled by his opponents, was not a school of political philosophy at all; it had no rounded theory of state action; it was a body of practical politicians, in the forefront of whose policy were Free Trade, peace, non-intervention in European affairs, economy in colonial policy, and opposition to interference with the freedom of contract of adult males in regard to factory legislation. They believed that war and protection went hand in hand, and looking back on the wars of the eighteenth century they were not far wrong.

It is stated that Free Trade has not secured peace : it was not intended to do so ; it was intended to abolish some of the causes of friction. In this aim it has probably been successful. The policy of the open door has probably saved Great Britain during a period of great Imperial expansion from many a disturbance, and it is not improbable that the conception of a self-sufficing Empire closed to all foreigners that has grown up in the minds of one great political party has been an active cause of the recent growth of armaments. Cobden, however, explicitly denied that he held that this country should not have adequate means of defence ; he did not believe in "peace at any price," but he was opposed to aggressive militarism. Neither is it true that Cobden, or any other Free Trader, looked forward merely to a "bagman's millennium," merely to the growth of material wealth. From that accusation Mr. Balfour has defended him.¹ The Manchester school did not, as has been so often stated of late, wish to sever our connection with the colonies. Like most statesmen of the period, they believed that in time, with the growth of wealth and nationality, the colonies would become independent, and they urged that they should be permitted to go in peace, and not as the American colonies. Meanwhile they should be retained, not by the sword, but by the affections. In regard to domestic legislation, it is forgotten that Cobden approved of a national system of education and of the prohibition of the employment of young children in factories. He was of opinion that no case had been made out for interference with the employment of adult males, yet he earnestly maintained that in some cases freedom of contract was simply freedom of coercion. It is obvious

¹ Addresses : Essay II.

therefore that the principle which is attributed to them, that selfishness is the only legitimate economic motive, is true of the Free Traders neither of the past nor of the present.

ADAM SMITH AND EMPLOYMENT

What is true of the later economists is even more true of the master. It is widely proclaimed for Tariff Reform that it alone concentrates attention on the problem of employment, whereas Free Trade has for its sole aim the creation of the maximum of material wealth. The problem of employment, on the contrary, was the basis of Adam Smith's theory of international trade. That theory, strengthened by keen observation of social facts—for no other economic work is better illustrated from history—rests on the relative advantages to society of different employments of capital as measured by, firstly, the quantity of productive labour which it puts into occupations, and, secondly, the extent to which such employments increase the value of the produce of the country's land and capital. The employment of capital was more advantageous to a country in proportion as it was employed nearer home, and the returns to it were more frequent. The relative advantages to society of the different employments of capital were ranked by Adam Smith thus: first, agriculture; second, manufacture; third, wholesale trade; and fourth, retail trade; and the different branches of the wholesale trade thus: (1) the home trade; (2) the foreign trade of consumption; (3) the carrying trade. It is important to notice that in Adam Smith's theory the *place* of employment of capital was an essential mark of its national advantage. There is no trace of cosmopolitanism in his

exposition, and on it the later refinements of the Free Trade theory are based. The emphasis laid on agriculture belonged to the common thought of an age which measured prosperity by the increase of rent : it was losing its application in Adam Smith's day, and has now entirely lost its application, when Great Britain has been transformed from a mainly agricultural into a mainly manufacturing nation. No distinction in Adam Smith's sense of advantage is now drawn between employment of capital in agriculture and in manufactures. But two perversions of Adam Smith's theory have been fostered by the modern Tariff Reformer. Whereas Adam Smith ranked the near above the distant employment in the order of advantage, the modern Tariff Reformer uses his doctrine as if it meant that a foreign trade may be replaced with benefit to the country by a home trade. On the contrary, both are necessary, and neither can be cut off without loss. In the second place, the modern Tariff Reformer attempts to apply Adam Smith's theory to the whole British Empire in order to bolster up the preferential scheme with the support of his authority. It is obvious, however, that Adam Smith's distinction between the near and the distant employment of capital is wholly inadequate as applied to the Empire. The employment of capital in the outlying parts of the Empire is precisely on all fours with, and results in no greater advantage than, the employment in foreign countries. The attempt, then, to find in Adam Smith's doctrines an economic support for the intention of transferring the British-foreign trade into a British-Imperial trade conspicuously fails. Or, if the rendering of the British Empire self-sufficient be the object in view, the transformation of an Imperial-foreign trade into an Imperial-

home trade can only result in loss incurred by each constituent part of the Empire.

Neither is Adam Smith's teaching based on "the selfishness" of individuals as the supreme economic motive. He explicitly points out that even the interest of dealers in any particular branch of trade or manufactures is always in some respect different from, and even opposite to, that of the public. Advantage, in his sense, is not synonymous with a high rate of profit. The trader never dreams of conferring an advantage on society. Yet the order of advantage to society is also generally the order of advantage to the trader. To prove this, Adam Smith does not rely on the presence of the "invisible hand," but on the mere economic truism that with free competition and with equal or nearly equal profits men prefer to employ their capital in manufacture rather than in foreign trade, in the near rather than the distant employment, in the home trade rather than in the foreign trade of consumption, and in the latter rather than in the carrying trade. Though less so now than in Adam Smith's time, it is still true that a natural preference exists in favour of home as against foreign trade, and that therefore foreign trade is a supplement and not an alternative to home trade—a supplement without which the crowded population of Great Britain could under no circumstances exist. If the profits upon capital employed in the foreign trade or in the carrying trade exceed the level required to equate the net advantages of all the different employments of capital, capital will be withdrawn from other employments and invested in the foreign trade until the returns fall to the lower level. The "net advantages" take account of the natural preference which exists in favour of the home

trade—a preference which arises from such differences as law, language, commercial custom, shipping regulations, taxation, security, and other things similar to these. However much the international fluidity of labour and capital has increased in recent years, it has not yet anything like the purely national fluidity. If, then, Imperial trade is to be approximated to a home trade, it must be through the Imperial assimilation of naturalisation laws, emigration laws, shipping laws, and so on, and through the Imperial investment of British capital. These, though the material of a less sentimental policy, are the objects of a genuinely patriotic and Imperial union. But these find no place in the programme of Tariff Reform.

ADAM SMITH AND FREE COMPETITION

The perversions of Adam Smith's teaching on international trade arise solely from the neglect of the whole of his writings. In the case of no other writer is it so easy to pick out passages here and there to make Adam Smith mean the reverse of what his intentions were. His chapter on the different employments of capital is read without connection with what follows. In no less degree are his views on free competition perverted. Adam Smith, any more than the latter economists, was not dominated by the principle of *laissez-faire*. He believed on general grounds that the presumption was against governmental interference unless a strong case for it was made out, and then in favour of local as against central control. In addition to the ordinary duties of defence and justice, it was the duty of Government to erect and maintain certain public works and public institutions which it could never be to the interest of any

individual or small number of individuals to erect and maintain. He approved, even on laissez-faire principles, of the State provision and maintenance of roads, bridges, canals, harbours, Post Office, and Mint. The State provision of railroads in Uganda, the State support of the British Cotton Growing Association, are not, and never were, inconsistent with Free Trade doctrines. Not only did Adam Smith approve of the State provision of compulsory and cheap education, but also of national action against disease. He believed that men have a claim to an undeformed physical and mental manhood, in so far as the community can provide it, just as they have to the safety of life and property. He approved of premiums to encourage inventions and excellence in production, for these, in his opinion, would not alter the natural distribution of employment. He approved of taxation having as its object the discouragement of the consumption of spirituous liquors. He believed that the exaction of fines for the renewal of leases and the custom of inserting restrictive clauses in leases should be discouraged by putting heavier taxation on rent derived from these than from other sources. Full compensation should be given for unexhausted improvements. In the sphere of international trade, defence was to him of much more importance than opulence. The criticisms now directed against laissez-faire arise therefore from the inability to appreciate its meaning. Adam Smith's ideal was not that of Herbert Spencer—the provision merely of the freedom of legal equality: it was much broader—the provision of substantial freedom according to the law of justice. Laissez-faire in his teaching involves State interference to force just dealing upon the strong, and to free the weak from obligations to which their poverty but not their

wills consent. To Adam Smith, as to Cobden, freedom of contract was in some cases freedom of coercion. These are the principles which run through much of the recent factory, sanitary, educational, and other social legislation, and their application is far from being exhausted.¹

The growth of society, with its large towns and factory system, has extended the sphere of governmental action, but it is doubtful if the State does more now than hitherto in proportion to what the individual does for himself. The national conscience has awakened to the new situation wherein alone, and not in the principle, lies the novelty. But at no time has social legislation been inconsistent with Free Trade.

¹ Cf. Churchill, Dundee, October 3, 1911: "Of course it would be very absurd to compare the great powerful association of railway servants to these poor, weak, sweated trades which manifest themselves mostly in the East End of London; but they have this in common, that apparently their power of collective bargaining is not operative with its full force and freedom, and if that be so it is clear that it is the duty of society and Parliament to make sure that those who have not for reasons of public interest, the same power of collective bargaining as other trades, should not be losers by the fact that they have to forgo this advantage for the general sake of society."

CHAPTER IX

TARIFF REFORM AND THE SOCIAL PROBLEM

WAGES

THE boast of Tariff Reform before the constituencies has always been that by one and the same process of providing "two jobs for every man" the unemployed will be absorbed and the wages of employment will be raised. This statement is made in face of the acknowledged fact that wages, both money and real, are lower on the Continent than in Great Britain, and of the tale a hundred times told by the sufferers from Protection in England in the first half of the nineteenth century that foreign countries, including even America, were undercutting British manufactures owing to the higher cost of living in this country. Indeed, the only countries to which the Tariff Reformer can point as able to pay higher real wages—that is, taking into account the purchasing power of wages—are the United States and the as yet relatively undeveloped British Dominions such as Canada and Australia. It would be strange indeed if wages in these countries were not higher than in Great Britain; it is indeed strange that they are not higher than they are. Much has been made recently of the Report on Wages and the Cost of Living in the

Towns of the United States, but nothing is more certain than that the three trades dealt with in that Report are not typical of the general level of wages in the United States. The Report showed that for three industries wages were 250 per cent. higher than in Great Britain, while the cost of food and rent was only 52 per cent. higher. What, however, of other trades, such, for example, as the steel trades? At the Bethlehem Steel Works in 1910,¹ out of a total number of 9,184 workpeople, 67·2 per cent. were earning from 9*d.* to 10*d.* an hour—a wage which compares unfavourably if account be taken of purchasing power with the average paid in the iron and steel trades of the United Kingdom.² The United States Census of Manufactures, published in 1908 and referring to the year 1905, gives the average weekly earnings of 5,470,321 workpeople employed in 216,262 establishments at 38*s.* 2*d.*

From statistics referring to over seven million British workpeople given recently to the House of Commons by the late Parliamentary Secretary to the Board of Trade, it appears that the average weekly wage in this country is not less than 25*s.* 4*d.* It seems therefore that there is little to choose between the purchasing power of wages here and in America. Yet the United States are but sparsely populated; their natural resources are enormous; and they are only now perfecting all the groundwork of a great commerce—such as ports, canals, railways,

¹ Report of U.S. Commissions of Labour, 1910.

² The average wage of men in the iron and steel trades of the United Kingdom was in 1906 39*s.* 1*d.* for a week of 52 hours (v. *Labour Gazette*, September 1911). Average wages in the cotton industry are not generally higher at Fall River, and are lower in the Southern States than in Lancashire, while the hours of labour are longer (cf. Cd. 5609, pp. 202 and 65-6).

buildings, etc.—which has long been established in this country. The huge extent of farm-land in the United States which may still be brought into cultivation;¹ the value of the United States farms, estimated in 1909 at eight billion dollars, equal to an income of 90 dollars per head of population; the unthinkable vastness of her coal deposits, calculated to be sufficient for 3,000 years at a consumption of one billion tons per year; her resources in iron ores, copper, gold, silver, lead, zinc, stone, clay, and sand, petroleum and natural gas, and her already developed water-power, amounting to 5,356,680 horse-power in 1908—these things make it incredible that higher wages should not be paid in the United States than here, or that anybody should imagine that by the help of a mechanical device applied to a part of our imports British wages should be approximated to those possible in America. The annual value of United States farm-lands and minerals alone is estimated to provide an income of £24 to every man, woman, and child in the United States. That wages therefore are not higher than they are is a serious count against American Protection, and all the evils it has made possible.

But it is unnecessary merely to point to conditions abroad to prove that Protection has not provided high wages. The Protectionist doctrine takes no account whatever of the real influences which cause wages to rise. It neglects totally the relation between productivity and wages. Even granting for the moment that Protection could increase the home or foreign markets for British goods, and therefore the amount of produce demanded, it is unable to increase by

¹ Estimated by the United States Conservation Commission at 2,300,000,000 acres.

an atom the productivity of each worker employed. By decreasing the purchasing power of his wages, it is more likely to diminish each worker's efficiency and productivity. The net output of the factories and workshops of the United Kingdom—after deducting from the selling value of the produce the cost of materials used—is estimated to be £712,000,000.¹ To produce this output, the average number of persons employed was 6,936,000. Thus the net output per employé is just under £2 per week. Out of this sum has to be paid wages, salaries, rent, royalties, rates, taxes, depreciation, advertisement and sale expenses, interest and profit. In certain trades, such as chain-making, hosiery, and silk, the wages earned have been stigmatised, rightly, as starvation wages: the average wage paid in the silk industry is 12s. 9d.; yet how can it be raised so long as the average net output of each employé is only 21s. 2d.?

If wages in all trades are forced up beyond their productive capacity, prices must be forced up to correspond, and real wages will not be increased. Similarly, if the prices of the gross output are forced up and wages left to get what share they can, real wages will not be increased, but rather, since every worker is also a consumer, will be diminished. Any increase of wages therefore, under the existing standard of productivity, must proceed from one or more of the items enumerated above. It is obvious that no increase of wages can be drawn from salaries, depreciation, interest, and advertisement and sale expenses. No claim is made on behalf of Tariff Reform that it will increase wages at the expense of rent, royalties, and profits. Any manipulation of taxation, if that is still part

¹ Census of Production, 1907.

of the Tariff Reform programme, cannot result in any benefit to the working-classes, and even if the Tariff Reformer's assurances on this point could be accepted, it would be a drop in the ocean.

What remains? Tariff Reform cannot increase the net output per head, except in one way—by establishing greater security for industry and thus diminishing the amount of short time worked: the claim that it can do so is properly part of the claim that it can increase employment, and as such it will be examined. Whatever benefit might accrue to labour at the expense of rent, royalties, interest, or profit, it is not proposed to secure it by tariff manipulation. Even if it be granted that some increase of wages might thus be gained along other lines of legislation, it remains true that any permanent and substantial increase of real earnings can result only from increasing the efficiency of operatives and machinery, and increasing the supply, and thereby decreasing the price, of the raw materials used. In regard to the first of these, it is to be remembered that high wages tend of themselves to increase efficiency. Low-paid and inefficient labour is in most industries the dearest labour to the employer. Any "unfair competition" arising from the lower wages paid abroad is therefore a delusion: it does not exist in regard to the vast mass of British industry. By putting difficulties in the way of our foreign trade, and especially by discouraging the investment of British capital in foreign countries, and by taxing our imports of food-stuffs and semi-manufactures, Tariff Reform would undoubtedly decrease real wages by increasing the cost of materials used. As a specific for raising wages it is, for these reasons, hopelessly inept.

UNEMPLOYMENT

It may be affirmed at the outset that the international comparisons of statistics of unemployment which are so frequently used in popular discussions are entirely unreliable for the purpose of the fiscal controversy, owing to the diverse methods of their collection and the different subjects they in fact refer to. On the face of them they show that unemployment is less in Germany, but greater in the United States and France than in Great Britain. Even, however, on the lines of argument adopted by the Tariff Reformer it is manifest that if we take the difference between the average figure of unemployment in Germany and the average figure in Great Britain, we arrive at the highest figure which could represent the amount of unemployment which could possibly be due to Free Trade, and we should find that that difference represented only a minute portion of our unemployment. It is difficult to understand the argument that increasing the cost of production and increasing the prices of consumable commodities, and therefore diminishing the demand for them, can possibly augment the production of the country. But even if it be granted that Tariff Reform could in some inexplicable way increase the amount produced, it remains true that the problem of unemployment would be no nearer a permanent solution.

During the whole of the Free Trade era, production has expanded from at least two to three times, and yet the Trade Union figure of unemployment has remained over a period of years at about the same level. It is sometimes said that unemployment in the worst years of depression has grown

progressively worse; but it is also true that unemployment in the best years of prosperity has grown progressively better, except during the panic conditions created by the American financial crash in October 1907. It appears, therefore, that the fluctuations of unemployment between one extreme and the other have grown less severe, and this fact lies in the true line of progress. For unemployment is not a problem of an excess of the total supply of labour over the demand for it, but one of the fluctuations of employment. Even in recent years within one period of cyclical fluctuation, unemployment has grown greater, at the same time as production and trade has increased more rapidly than at any other period. This phenomenon of increasing production and increasing unemployment is not peculiar to Great Britain; it has manifested itself in all other industrial countries.

Dr. Otto Most, Director of the Statistical Bureau of Düsseldorf, who has made a special investigation into German unemployment, has written "that the growing danger of unemployment in Germany, as elsewhere, is in the main due to the process of industrialisation, which has become more and more manifest in all civilised States within the last few decades. . . . Thus the industrialisation of the Empire and the increasing danger of unemployment go hand in hand."

The basic fallacy at the bottom of the Tariff Reformer's argument is that there is in Great Britain an excess of the supply of labour, and that there is a cohesive body of unemployed people which can be used for the purposes of entirely new production. If it were so, it is difficult to see why it could not be used now, provided sufficient cheap capital and raw materials were given them to work upon. The truth is that

there is no such stagnant pool of unemployment ; there is but a continuous stream, whose constituent waters are ever changing according as the unemployed man slips in and out of employment.

The Trade Union figure of unemployment cannot be interpreted to mean an excess of labour waiting to be employed: it means in reality a fairly stationary amount of continuous fluctuation. If we suppose that in 1907 Tariff Reform had been adopted, and that in consequence the £8,000,000 of net imports of cotton goods which we annually purchase from abroad had been made in Lancashire, it is not only true that a corresponding amount of our export trade would have been lopped off with nothing to replace it at home,¹ but also it is evident that when the price of raw cotton rose to famine heights, an exactly equal percentage of the increased number of operatives employed would have been thrown out of employment as were actually thrown out in 1910. Thus the figure of unemployment would have remained at exactly the same level, say 4 per cent. Similarly if, owing to hot weather, a proportion of coal-miners are displaced, or owing to the scarcity of water a proportion of woollen weavers are thrown out of work, the same percentage of unemployed men will figure in the returns, no matter how great the number normally employed on the production of coal or woollen cloth. Skilled

¹ The Tariff Reformer seems unable to apply to our foreign trade the elementary principle that it may be more advantageous to do one process of industry twice rather than two processes once, that the economies of production on a large scale are thereby gained, and that in each case the same amount of labour and capital is, *prima facie*, put into employment. This inability is the cause of delusions about, *e.g.* the export of yarn instead of cloth, and of the belief that Protection would secure the economies of large production, and therefore cheapness.

artisans, such as cotton operatives, coal-miners, or weavers could not, if they would, and probably would not if they could, betake themselves to any other occupation. During the period of transition, while a new trade is to be learned, the percentage of unemployment remains. It may be said that they may enter the ranks of unskilled labour; they certainly might, if they did not prefer to wait and see if the causes of the fluctuation do not pass.

In regard to unskilled labour, it is, again, fluctuation which causes unemployment. The principal example of casual unskilled labour is that which hangs round the dock-gates waiting for the first job that comes along, and is employed during a few days every week. Suppose, then, that Tariff Reform were unaccountably to increase the amount of shipping to be handled, and were to provide employment by increasing the number of dock hands, it is manifest that on the occurrence of any of the causes which now bring about a temporary slump of work to be done, the same proportion of the increased number of men would be thrown out of employment. Precisely the same argument is applicable to the working of short time. Thus the scarcity of raw cotton would, even if Tariff Reform brought about an increase of normal production, necessitate the same proportion of short time as has been in existence under Free Trade.

The example of dock hands suggests the real remedy for unemployment, namely, organisation, and in cases where the fluctuation is beyond the reach of organisation, a means of palliating the temporary evil and preventing the unemployed from becoming unemployable. Labour Exchanges, in so far as they accelerate the adjustment of the supply and

demand of labour, Unemployment Insurance, and Sickness Insurance in so far as it prevents the sick from being dragged down because of poverty, are in the direct line of reform. The causes of fluctuation are so numerous, that a continuous flow of unemployment is kept in existence, relieved by an occasional trade "boom," and aggravated by an occasional trade depression. Among such causes are the institution of labour-saving machinery, seasonal fluctuations, new inventions, forces, ideas, and fashions; strikes, world-wide trade depressions, bad harvests; scarcity of raw materials, financial crises, and epidemics of plague such as recently visited Manchuria and destroyed the purchasing power of a great market.

Chiefly through the invention of labour-saving appliances, the distribution of employment in the United Kingdom, Germany, and the United States has followed very similar courses in regard to the great industries. As in the woollen and worsted industry, a much greater output has recently resulted from the application of a less proportion of labour. In all three countries the proportion employed in some of the principal industries has shown a remarkably uniform tendency to decrease. While admitting that the influence of labour-saving appliances is in the long run to increase wages and employment, yet during the period of transition unemployment is occasioned, and if the institution of labour-saving appliances proceeds at a greater rate than the displaced labourers can be absorbed, permanent unemployment may result.¹

¹ Marshall, however, has pointed out ("Principles," Book vi., chapters 4 and 5) that the use of machinery, by making general ability a more important factor, promotes the mobility of labour by substituting thin lines of division for the old impassable barriers between trades.

There are some signs that this may have occurred in England during the last fifteen years. In trades subject to seasonal fluctuation, such as agriculture, building, engineering, shipbuilding, printing, bookbinding, and coal-mining, it is to some extent true that higher wages are paid to counterbalance the fluctuations of employment; and if so, it follows that if the fluctuations are abolished, wages may fall. The shipping, shipbuilding, and engineering industries are notably most liable to fluctuation, since they depend largely on the fluctuation of the world's trade; even were trade at a higher level, the fluctuations would still occur and unemployment result. It is therefore noticeable that the figures of British unemployment are greatly swollen from this source.

Agriculture is reputed as a relatively stable employment, and the relative decay of the agricultural class in Germany may possibly have contributed to the growing problem of her unemployment. Thus, in 1882 42 per cent. of her population depended on agriculture, in 1895 35 per cent., and in 1907 28 per cent. Fluctuation of employment is the price paid for increasing industrialisation. To the central cause of unemployment, therefore, Tariff Reform is simply irrelevant. To the present fluctuations it would add the instability occasioned by frequent tariff revisions, the prospect of the over-stimulation and over-capitalisation of industries at each tariff revision, and the readjustment which would be rendered essential by its introduction, and which would cripple the great English industries. The experience of protected America and Germany is that the value of the tariff is capitalised, industrial concerns are floated with an overwhelming burden of watered stock, and violent fluctuations of employment have been the result. Such has

been the experience, for example, of the American Woollen Company, which, overweighted with capital, has failed to pay dividends on the ordinary stock since its initiation, and even while forced ultimately to reduce its prices below the level of the world-price, plus the tariff, is all the more burdened by useless capital. In Germany similarly¹ the value of the tariff to the agricultural areas has been capitalised, lands have changed hands at an abnormal rate, lands have been mortgaged to pay the enhanced values, and in the long run neither landowner nor farmer has benefited, while both, burdened by heavy capital charges, can only cry aloud for a new tariff revision in order that the same process may occur. While therefore adding new causes of fluctuation, Tariff Reform has but one remedy to offer in palliation of the old; the security of being relatively independent of foreign countries. There is, however, no reason to suppose that fluctuations are less violent in a self-sufficing country than in one whose markets are widespread, and are therefore likely to be less influenced by the failure of any one. No modern country can afford so to cut itself off from the main current of the world's trade. For the abolition of the causes of unemployment as they are being discovered by the new school of social investigators, who, as at Paris, are represented in every nation, Tariff Reform has nothing to suggest.

EMIGRATION AND PAUPERISM

Two of the social evils which Tariff Reformers set themselves to abolish are emigration and pauperism. They have no doubts that both of

¹ Cd. 5465, 166 and cf. Dr. Pachnicke, Reichstag, Oct. 27, 1911: "The seller makes a profit of hundreds of thousands, but the buyer falls into the greatest difficulties."

these are industrial phenomena. The first may be ; the second assuredly is not. It is true that large numbers of British subjects emigrate each year, but this emigration has been shown to have no relation whatever to the state of the labour market of the United Kingdom.¹ In some of the best years of trade, 1907 for example, emigration has reached high levels. Being certain that emigration is a proof of British industrial decadence, the Tariff Reformer is logically bound to the conclusion that if he is enabled to transform decadence to prosperity, emigration will cease. Should it do so, no greater calamity could befall the Empire ; not only would it be a sign of the cessation of British enterprise, but also the peopling of the Dominions would be gravely diminished and their prosperity seriously checked. The Dominions require, above everything, population ; and for many years a greater proportion of British emigrants have remained within the Empire. Inter-Imperial migration is a greater unifying force than tariff fetters ; consider how great is the attachment of Irish emigrants to their mother-country. It is to be regretted therefore that the Dominions representatives at the Conference did not see their way to co-operate with the British Labour Exchanges, for the Exchanges deal mainly with skilled labourers or artisans, than whom no better emigrants could be obtained. In considering this question from the fiscal point of view, three facts deserve attention ; the first is that the emigration from some of the protected countries of Europe, notably Italy, far exceeds that from Great Britain ; the second is that within the confines of Europe there is continually immigration on balance into Great Britain from the European protected States—a fact which does not

¹ Cd. 2337.

lend support to the idea that the British labour market is worse than those of the Continent; and thirdly, that the unfortunately large emigration from Scotland is demonstrably due, as it was for long in Ireland, to the anachronistic system of land tenure. Adam Smith's purpose of levying special taxation on rents derived from deer forests has not yet found a statesman ready to put it into law. If it be protested that German emigration has sunk to a low level, it is replied that Germany has no colonial empire which attracts her population, that she never was a colonising nation such as the British has always been, that the distribution of her population for many years must remain much less dense than that of England, and that her multiple system of insurance has for the past quarter of a century more and more bound the mass of the German working-classes to their homes.

Pauperism is not an industrial problem: it is a problem principally of sickness, and, until recently, of old age. If it were an industrial problem analogous to unemployment, as the Tariff Reformer appears to believe, Free Trade has a satisfactory record to present.¹ In 1850 the total number of paupers in England and Wales was 62 per 1,000 of the population. In 1909 the number was 26, and in April 1911 it was further reduced, to some extent owing to the removal of the pauper disqualification in the Old Age Pension Act, to 18·7. Outdoor pauperism represented 54 per 1,000 of the population in 1850; in April it was 11. If, then, owing to Free Trade, England has, as the Tariff Reformer asserts, become industrially decadent, or if her industry has failed to absorb the natural increase of the population,

¹ The Rt Hon. John Burns, House of Commons, April 27, 1911.

one or more of five things must have happened: either a greater proportion of her people must have emigrated, or have become unemployed, or have become paupers, or have died, or the general level of wages must have fallen. There is no other alternative. But the numbers of emigrants have not, over the last generation, increased, and in proportion to population they have decreased. The percentage of unemployment has similarly remained at about the same general level. The proportion of paupers has enormously decreased. The death-rate has diminished. The level of wages has risen. It follows therefore that the assertions of the Tariff Reformer are totally unwarranted. But not only is he astray in matters of fact, he is also astray in the search for a social remedy. Out of the total pauperism of 18'7, children account for 7. Able-bodied outdoor relief is now only 2 per 1,000: in the words of Mr. Burns, "almost a negligible quantity." Such is the real measure of the permanent unemployment of this country, and how many of the two are psychologically unemployable? Further, from 84 to 90 per cent. of the total pauperism is due, not to unemployment, but to physical and mental disability. From 12 to 18 per cent. are mentally deficient. Out of a total of 900,000 paupers, less than 10,000 are able-bodied men in health. The problem of pauperism therefore is not one for the fiscal reformer at all; it is one for the doctor and the humane.

The claim of Tariff Reform, therefore, to be a remedy for the evils of unemployment, low wages, and pauperism cannot substantiate itself. The proposed remedy is simply irrelevant to the disease, and the Tariff Reformer must mend his diagnosis. The fiscal controversy has had one beneficent result, the importance of which it

would be hard to overestimate : it has awakened the conscience of the nation ; it has stimulated inquiry into the deep-seated causes of social injustices and discontents ; it has inaugurated a consistent and wide-reaching scheme of social legislation by means of Labour Exchanges, Old Age Pensions, Invalidity and Unemployment Insurance, Land Reform, Agricultural Regeneration, and Poor Law Reform. It has shown that the vast mass of social misery is no fault of the individuals whom it affects, and it has regenerated in its full significance the genuine doctrine of *Laissez-faire*, as it was held by Adam Smith, as a guiding political principle, having as its object the establishment of the substance of liberty according to the laws of justice and not the dictates of poverty. The protected States of the world have found no alleviation from social misfortunes in their Protection : they have been forced into adopting totally different remedies. If Protection is adopted by the United Kingdom, we have no reason to suppose that we shall be more fortunate than they : we shall require to follow in their footsteps and pay the penalty for our dilatoriness. Protection is an outworn doctrine which has but inculcated counter-Protection to meet it, and which is out of touch both with modern social science and with the lines of social effort which are demanded in the modern State.

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